

# **Old Age and Social Security in Taiwan:**

**A STUDY IN POLICY AND PLANNING**

**BY**

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#### **DECLARATION**

I hereby declare that the work presented in this thesis is my own work unless otherwise stated in the text and that the thesis has been composed by myself.



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#### **ABSTRACT**

The main purpose of this thesis is to answer the question: what kind of social security provision for old people should be applied to tackle the problem of economic insecurity arising from the structural change of both economy and population in Taiwan? In order to answer this question, both desk study and empirical research have been undertaken. The desk study began with a general review of the concept of social security, followed by a case study of the British provisions, and then came to the main study of Taiwan.

The data of the study came mainly from governmental statistical data and available research reports from both public and private sources. Many crucial but unavailable data were collected by the author's research which including a mail questionnaire survey in Taiwan and a minor regional interviewing survey in Taipei City. All findings are developed in related chapters. The process of the empirical study was, firstly, to clarify the general background such as the demographic, economic, political and social situation, and the special situations and needs in respect of family, economy and health of the elderly. Secondly, an intensive analysis of the existing provisions of Taiwan was made. Special emphasis was put on social insurance. Finally, based on these research findings, several options for changes for both short-term and long-term aims were suggested.

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**1 Introduction**

**1**



## CHAPTER 1

### INTRODUCTION

The subject of this thesis is concerned with social security for the elderly in Taiwan. This subject is chosen because not only is there still no adequate pension provision for the majority of old people yet but also the level of existing lump sum retirement payments is on average very low. Most old people must depend on their children. But rapid change in the economic structure has led to the following questions: a) family support becomes more difficult; b) enough savings for old age is not possible for all; and c) wages for the old themselves may not be available. Moreover, in Taiwan nowadays only 17% of employed people remain in agriculture. On the contrary, there has been a big increase in the last 30 years in secondary and tertiary industries. Though there are some wage-earners in agriculture and many small self-employed in secondary and tertiary industries, the trend will be more and more people in wage employment in the future. With a consequent increase in vulnerability to sickness, injury, disability, death and the fluctuations of the labour market. The potential insecurity will affect old people's welfare as it can affect their family support, their savings and their own access to wages.

Furthermore, the proportion of old people in Taiwan is set to greatly increase and may well be as high as the UK and West Germany today within 3 to 4 decades. Facing the change of the structure in both economy and population which has affected most countries as they have become more economically and industrially developed, there must be some reliable income maintenance provisions to tackle the problem of economic insecurity of the people. However, it is not an easy question to answer, because all kinds of income maintenance provisions have their own merits and limitations. Even within the field of social security, there are not only many sub-fields or sub-provisions such as social assistance, social insurance, and universal allowance for options, but also even several alternatives in each sub-field. They also



have their own merits and limitations. All options are subject to not only objective social and economic circumstances, but also the subjective value-judgements of society.

For above reasons, there will be a general discussion on the framework of income maintenance in chapter 2. However, because the objective of this thesis is to discuss the income security of the elderly, so a discussion of the meaning of 'old age' and its measurements will be given in the beginning of this chapter. As the provisions of social security will play more importance role in Taiwan in the future, referring to Professor Kaim-Caudle's *Comparative Social Policy and Social Security*, Midgley's *Social Security, Inequality, and The Third World* and ILO's *Into the Twenty-First Century: the Development of Social Security*, I try to explore their possible patterns, inherited basic characteristics and the consequences of different financing methods in detail. A static theoretical analysis might not be clear enough to demonstrate the vast implications of social security, so this is followed by a small dynamic case study on the British social security system in chapter 3. As Britain is one of the oldest welfare states in the world, her affluent experiences in both theoretical approach and practical administration, especially the Beveridge Plan, may not only deepen our understanding in the theory of social security but also give some lessons for social security reform in other countries including Taiwan. So chapter 2 and chapter 3 should be considered together.

The substantial part of the thesis, chapter 4 to 9, however, is concerned with Taiwan in all aspects relevant to social security. Chapter 4 is about the research methods and research process. The research is in two parts: a mail questionnaire survey in the Taiwan area and another minor regional interviewing survey in Taipei City. The findings are developed in different chapters. As the social security system not only must be based on the existing conditions of a society but also be integrated with them, a discussion on the general background of Taiwan and its demographic, economic, political, and social situation is necessary. This is provided in chapter 5.

While old people will be a large proportion of the population in the near future, the difficulties of meeting this increased need will be foreseen. However, it cannot be assured that there is no problem for them at present when their proportion is still very low. So a general discussion on the situation and needs of old people today is made in chapter 6. In chapter 7, an overall description of existing social security provisions in Taiwan is given. Apart from the family, as primary social insurance has the largest number of beneficiaries in social security in Taiwan, so a detailed analysis of this provision is further made in chapter 8. After making clear all general and special situations in Taiwan, in chapter 9 the further task is to set out some options for change, particular attention is given to establishing a revised form of a social security system which has specific Chinese characteristics by drawing on the *Tripeoplism* of Dr. Sun Yat-sen.

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## **CHAPTER 2**

### **OLD AGE AND INCOME MAINTENANCE: A FRAMEWORK**

#### **2.1. Introduction**

'Old age' is a natural process in our lives. Due to the great dissimilarities in cultural value and socio-economic background, the experience of old age in different countries may differ greatly. The difference might range from deep misery to great fortune. In the field of social security, old age is a very distinct contingency. Therefore, the concept of 'old age' will be fully discussed first.

Secondly, after the meaning or definition of old age is made clear, some popular measurements of old age are introduced. By these measurements, the situation of the elderly or the ageing of the population can be described in a more accurate way.

Thirdly, the needs of the elderly will be discussed. The needs of the elderly are different from the younger age groups in many aspects. This is the reason why a special emphasis is given to the problem of income insecurity of the elderly.

Fourthly, the main focus of this chapter is to discuss income maintenance for the elderly. The discussion will be not only to illustrate the coverage of income maintenance, but also to explore the merits and limits of each source of income of the elderly. As a world trend, social security has been the main provision of income maintenance for the elderly, so a further discussion of the provisions of social security will be made in detail, including their function and limitation, as well their side effects on economic activities.

Finally, for the purpose of this thesis, in order to discuss some options for change in social security in Taiwan in the future, a discussion of the criteria for choice will be essential and necessary.

## 2.2. What Is Old Age?

'Old age' is both a very distinct and uncertain state in our lives depending on what point of view is adopted. If 'old age' is defined as a state when people are up to and over a certain calendar age such as 60 or 65, then old age will be a very distinct state because all people will be in old age as soon as they are up to that age; but if 'old age' is defined as a state of disability due to senility or the loss of ability to work, then it will be very uncertain. Because old age is such a complex phenomenon, there is a new discipline *gerontology* to pursue it. In gerontology, according to James Birren, the concept of 'old age' can be broken down into three aspects: biological age, psychological age, and social age (Puner, 19). Of course, all of them are related to calendar or chronological age, but not consistent with each other. The state of 'oldness' in biological age is that the normal function of some or all organs will become weaker than before. The skin becomes wrinkled and the hair turns grey or white, and the like. In psychological age, a man will become less flexible in perception, learning, feeling, emotions and behaviour. Lastly in social age, after several decades of playing certain roles, the lives of many old people will turn to be stereotyped, so there will be more difficulties in role adjustment, social participation, etc. Moreover, the socially created barriers such as retirement age, either formally or informally, will also influence the situation greatly. These three types of age are not only not consistent with chronological age, but also not consistent among themselves. For example, some people might be very old in biological age, but still very young in psychological age; or, on the contrary, their psychological age might be older than their biological age.

In the field of social security, a special concern is put on the earning power of *labour* of the people. Generally all people will gradually lose their earning power as they really grow 'old', no matter at which age. Finally their earnings will be insufficient for their needs if they have no other sources of income from other productive factors such as capital or land. In the past, due to the loss of productive

ability and the lack of productive capital, the elderly in Eskimoan society had to be killed or kill themselves in order to reduce the pressure of food. So it is definitely a misery to be old in that kind of society.

On the contrary, in Chinese society, due to the rural culture based on agricultural economy, the holdings of property are mostly in the hands of the elderly or the eldest, so there develops a high cultural value to respect the elderly. In traditional Chinese society, the oldest member in a family or a community is always the person who has the highest status. If there is any dispute in family or community, he will be the arbitrator. In a banquet he will take the most honourable seat. It is a general norm that the younger should respect the elder in traditional China and in modern China too. In daily language we always use 'old' before one's surname such as 'Chan', 'Chen' and 'Chin' or some other general name such as 'teacher', 'boss', 'brother' and 'husband' when we greet any person. In this case the word 'old' does not really mean 'aged', it means 'respectable' or 'honourable'. Moreover, in Chinese society there are two kinds of very common invitation: the red and the white. We use the red colour invitation to invite guests to join our wedding and birthday parties for celebrating and use the white colour one only if we invite guests to join a funeral ceremony. But if the member of a family dies at an age of over 80 years, the invitation will be red again. In this case, on the way to the graveyard the family will let off firecrackers to celebrate their luck to have had such a long lived old member. People also join this kind of funeral in a happy mood. Unfortunately, this custom of respecting the elderly cannot be easily maintained in modern industrialized society. Even income insecurity has gradually become a significant problem for the elderly in Taiwan.

No matter in which kind of society, in order to tackle the problem of income insecurity, there is usually a legal age for people to retire and receive benefits. So, the retirement age has come to be conventionally defined as 'old age' of the people in social security because only after that age are people entitled to old age benefits (Tinker, 9-14; Guillemard, 152; Markides & Mindel, 12). Comparatively, 'old age'

is a relative constant concept and 'retirement age' is more changeable, so they are not necessarily consistent. There is evidence that many industrial countries nowadays tend to adopt a lower or flexible retirement age policy under the influences of mass unemployment, labour-saving technological innovation, the baby boom after the War and the cheaper labour of young people (Guillemard, 153). But in case of labour shortage owing to economic boom, the retirement age will be set higher voluntarily or even compulsorily. In both cases, the difference between old age and retirement age will be enlarged. Even if retirement age is universally accepted as the working definition of old age, there still is the question of how to decide a retirement age. There are at least two main opposite theories, disengagement theory and activity theory, debating about the policy of retirement or the broader theories of ageing (Hendricks and Hendricks, 107-116; Parker, S., 52-62).

The main idea of disengagement theory is to give a fixed age of mandatory retirement and to enable the elderly to become fully disengaged from their jobs. So, from the positive point of view, this measure will enable the elderly to commence a new fresh life of hobbies and leisure. But from a negative point of view, disengagement theory seems to be based on the assumption that people by nature do not like to work. At least, they will become bored and tired of their work after a long term of engagement. So a fixed retirement age is functionally an instrument, on one hand, to force able-bodied people to work and, on the other hand, to force old disabled workers to retire. In addition, as Stanley Parker (151-2) and Chris Phillipson (Guillemard, 128) summarized, there are more positive points in favour of the fixed retirement age in disengagement theory such as (1) *equal treatment*, avoiding the pitfalls of judging retirement according to individual merit or circumstances; (2) *saving face*, this is a good excuse for both the able-bodied who do not like to work and the disabled who want to keep working to retire; (3) *planning ahead*, a compulsory retirement age enables employees to plan ahead for their retirement or next career; (4) *promotion opportunity*, providing a means of promotion for lower level personnel.



The main idea of activity theory on the other hand is voluntary or flexible retirement and flexible life styles. It seems to assume that people like to work as long as they are able-bodied, therefore, there should not be any compulsory retirement unless they are really disabled or it's voluntary. Based on flexible life styles, 'work, leisure and education' are well-integrated parts in one's life. There is no clear-cut disengagement between them. At least their arrangements are changeable over time depending on personal circumstances. As there is no definite relationship between age and capacity, older people are not certainly less capable than the younger, so, under fixed retirement age policy, it is either an economic waste to force the capable elderly to retire if they still want to work or an economic inefficiency to retain the disabled or less well suited young to work merely because they are not up to retirement age. Only a flexible retirement policy can solve this problem. However, as Phillipson (1982:36, 155) and other academics (Gillemard, 135-6) pointed out, the political and economic environment of a society would greatly influence the expected function of flexible policy. For example, because of increasing rigidity within the labour markets of capitalist societies, the flexibility will only be operated on the employers' terms. Under these circumstances, flexibility may increase, rather reduce, the feeling of insecurity.

As mentioned above, the merits and limits of these two theories are exactly on the opposite sides, ie, the merits of disengagement theory can overcome the limits of activity theory, and vice versa. In this situation, theories themselves cannot decide which theory is more appropriate. It can be decided only by the adequacy of old age provisions and the real attitude of the people. Firstly, if there is no adequate old age provision as a basis, the discussion of fixed or flexible retirement will be meaningless or even could be a misery for the retired with fixed retirement if they have no other sources of income. Secondly, if and only if adequate old age provision is available, or, if a society is affluent enough to afford an adequate old age benefit, will the option of choice depend on the real attitude of the people. If most or even only a bare majority



of working people are dissatisfied with their occupations, then a fixed retirement policy will be reasonable, otherwise a flexible policy will be better. Briefly, the political adoption of a policy is dependent on not only the objective social and economic conditions, but also the subjective attitude and willingness of the people.

According to *Social Security Programs Throughout the World 1985*, a report published by the United States Department of Health and Human Service, apart from 10 without any civil provision, all 132 countries or areas with old age programs have fixed retirement ages. The lowest retirement age is as low as 40 years for both men and women in the Solomon Islands. The second lowest one is 45 years in Swaziland and Uganda. Nepal does not even fix an age for retirement. On the other side, the highest retirement or benefit age is 70 years in Hong Kong. The second highest one is 67 years in Denmark, Iceland and Norway. And the third highest one is Ireland's 66 years. As for the most popular retirement ages, the first one is 60 years (both sexes) in 26 countries; and then 60-55 (man-woman) years and 55 years (both sexes) in 24 countries respectively; 65 years (both sexes) in 17 countries; 65-60 (man-woman) years in 16 countries; the remaining ages have very few countries (see Table A2.1 in Appendix).

Nevertheless, firstly, it will be a misunderstanding to conclude that all countries in the above table unanimously have only a fixed retirement age and a general old age provision. In fact, it is not the case. Evidence shows that some countries such as USSR and Taiwan do have special, conditional provisions for people to retire early. So this table indicates only the normal or regular cases of retirement. As for flexible retirement ages, it is in fact difficult to show on the table due to its great variety. Secondly, it is also true that only the minority of welfare states and some socialist states have general provisions for the elderly. Most other countries have provisions for only some of their old people. For those countries giving cover to only a small number of old people, a discussion of retirement age will not be very meaningful.

However, the great difference of retirement ages can bring us some thoughts on the adequacy of retirement age. Firstly, retirement age may be adjusted to match our financing ability to set up an adequate old age provision. For example, the number of beneficiaries may be reduced by raising the retirement age. Secondly, a retirement age should not make the life expectancy at retirement age too small, or there will be too few old retirees entitled to benefits. For example, there will be more people entitled to old age benefits for a country with life expectancy at retirement age of more than 10 years than another one with less than 5 years. Thirdly, in order to take account of financing ability of a society, a good retirement policy should begin at a relatively high retirement age, and then gradually lower it until reaching the limit of the financing ability of a society. However, from the point of individual retiree, because people psychologically prefer their retirement payments to be increased rather than to be reduced, so it will cause less frustration to set a low retirement age and then allow people to retire later with an increment of pension than to set a high retirement age and then allow them retire early with a reduction of pension.

Furthermore, there is also a distinctive difference in age between men and women. In 51 countries, including Taiwan, the age of women is lower than that of men. The difference is from 1 year to 5 years. Generally, the basic assumption is that women become older and weaker quicker than men, so they will lose their earning power earlier than men, and so their age should be lower. Another social reason is that the wife is on average younger than her husband, so with a lower age for women the couple can then retire simultaneously, in the same year (DHSS, 1985a:112). However, these are not strong reasons any longer. Not to mention the fact that the life expectancy of women is on average higher than men. Because most work in modern industrialised societies is not dependent on physical labour any longer, so there will not be much difference in the labour participation between men and women any more. Secondly, the range of age differences between spouses is so large that no single difference can suit all of them. Particularly, since many women are single, divorced,

widowed, cohabitants or even older than their husbands, this will greatly nullify the social reason. From a more general point of view, as a fixed lower retirement age for women or a higher retirement age for men could be explained as a measure either in favour of them or against them, ie, sex discrimination, just depending on their willingness to work. It will be a favour when they are already tired of work, or a deprivation when they are fond of it. So it could be a better policy to adopt an equal treatment between men and women as many scholars suggest (ILO, 1984a:50-53; Fogarty, 1980:29; NCC, 187).

### 2.3. Some Measurements of Old Age

As mentioned in the previous section, *old age* is a relative concept. In *gerontology*, it is quite common to define 65 years as *old age* (Puner, 17), but, in the field of social security, it seems to be quite acceptable to use retirement age (or pensionable age) as the definition of old age. If the retirement age is also defined as 65 years, then there will be no difference between gerontology and social security. Suppose we accept 65 years as the definition of old age, then there are several measurements which can be used to indicate the situation of old age. The first most direct one is the actual number (N) of old people. For example, in 1984 the number of old people was 922 thousand in Taiwan, 1,425 thousand in Sweden, 8,387 thousand in the UK and 11,956 thousand in Japan. The number of old people in different countries or even different stages within a given country might differ greatly. Unfortunately, this measurement cannot give us very good general lessons.

The more meaningful measurement is the percentage (%) of old people in the total population. Under this measure, the percentage of old people between two different countries may be quite similar even though their numbers differ greatly. Generally, under a growing or increasing population, the percentage of old people in a country tends to be low. The greater the increasing rate, the lower the percentage. On the contrary, the lower the increasing rate, the higher the percentage. Whenever a Zero Population Growth (ZPG) is reached, life expectancy will play an important role in the

change of the percentage of old people in the population. In case of ZPG, when we have a higher average life expectancy, that means that more people will be able to live into old age, so the percentage of old people will be higher. Moreover, if we define a lower age as old age, then more people will be classified as old people; only if it is on the contrary, will the number of old people be less. Assuming the state of ZPG has been in operation for a long time, ie, the society has reached a demographic 'steady state', then, according to this relationship between life expectancy and the definition of old age, a table of percentage of old people can be constructed (see Table 2.1).

Table 2.1 The Proportion of Old Age under ZPG

Average Life Expectancy	The Age of Old Age			
	55	60	65	70
60	8.3	-	-	-
65	15.4	7.7	-	-
70	21.4	14.3	7.1	-
75	36.7	20.0	13.3	6.7
80	31.3	25.0	18.8	12.5

Note: Assumes ZPG is a demographic 'steady state'.

Source: constructed by the author

Under the condition of ZPG, according to Table 2.1, if the 'age' of old age is defined as 60 years and the average life expectancy is 65 years, then the proportion of old people will be 7.7%; if the average life expectancy is 70 years, then the proportion is 14.3%; if 75, then 20.0%; if 80, then 25.0%. But if the definition of old age is raised to 65 years and the average life expectancy is 70 years, then the rate of old people will be 7.1%; if the life expectancy is 75, then the rate is 13.3%; and if 80, then 18.8%. Therefore, the percentage of old people can be reasonably estimated under ZPG.

Although an absolute ZPG state is very difficult to achieve or to maintain, this ideal type is a very useful criterion to judge the accuracy of the forecast of old people.

Many scholars estimate of old people aged 65 and over as more than 20, 25 or even 30 per cent in the future. For example, a study estimates that old people in the USA will be 23% in 2035 (Guillemard, 56). Facing this forecast, according to Table 2.1, even if its assumption of average life expectancy is as high as 80 years, as long as its population is still increasing or does not reach ZPG yet, it will be in theory impossible to have a percentage of old people higher than 18.8%. The estimate of 23% in the USA in 2030 is possible only if the USA has a decreasing population. Otherwise, either in a 'steady state' or a increasing population, this estimation is definitely wrong. In another study of the US Social Security Administration (DHHS, 1979:91), it forecast that the population aged 65 years and over in ten industrial developed countries would be about 17-18% in 2050. This estimation is quite similar to our ZPG hypothesis. However, this estimation will be too high if the US population still keeps growing due to high birth rate or high immigration. Furthermore, Table 2.1 can also be used as an equation to estimate the last unknown figure among 'old age': average life expectancy or the percentage of old people in the total population. For example, suppose we already know that the population in Sweden is quite stable, near to the state of ZPG, and its percentage of old people aged 65 and over is about 17%, so, according to Table 2.2, we can estimate its average life expectancy as around 78 years.

Another common measurement to indicate the economic dependency of old people of a society is *old dependency ratio*, the ratio of old people to working age people from 15 to 64 years. Originally, this ratio was used to express numerical relationship between the 'productive' and 'old non-productive' or 'old dependent' components of a population (Guillemard, 58). Its actual range of age is decided by the definition of 'productive' and 'non-productive'. As 'productive' age can be logically defined as 'working age', so it is quite appropriate for some academics to define 'productive' or working age people from 18 to 64 (Guillemard, 58) or 20 to 64 years (Chen, et al, 1986; Hsiao, et al, 1983). Of course, if we want to pursue this

measurement more accurately, the old dependency ratio can be strictly defined as the ratio of old people to actual 'labour force' or even to actual 'employed labour force' as long as the data are available. There is no problem to do so in theory. According to empirical international data, under the conventional definition, the range of this measurement was from less than 10 to more than 30.

The last measure to indicate the situation of old people is *ageing index*, the ratio of old people to non-working age young people under 14 years. Because the number of young people under 14 is directly influenced by births, so its number is more changeable and more uncertain. Comparatively, the numbers of old people and working age people are more stable and estimable, so the characteristic of ageing index is more sensitive than old dependency ratio. Its range can be from less than 10 to more than 100 under the conventional definition.

#### **2.4. The Needs of The Elderly**

Like all other people, the elderly also have to eat, to wear clothes, to require accommodation, to travel, to see a doctor, etc. Generally, all these needs can be met as long as they have sufficient income. But, unfortunately, as most old people will retire or become less capable to work, so their income will be interrupted or at least gradually decrease. Especially so in developing countries as there are no personal social services to meet the special needs of the elderly, all needs must be met by their personal or family income. Under such circumstances, *income maintenance* or *income security* is certainly the most vital issue for the elderly. This issue will be discussed in detail in the next section in this chapter.

Apart from income, the needs of the elderly may differ from the young in several aspects. Firstly, *food*, many old people must have special diet. They cannot or must eat some kinds of food, or they have to eat them in special ways of cooking due to health condition or illness. In many cases, some old people may not be able to cook by themselves.



Secondly, *clothing and accommodation*, the elderly have to wear more and thicker clothes when they become weaker and less active. In addition the elderly also stay at home longer, so their heating expenditure will be higher than other people's in the winter. When they grow older, many of them will be more disabled, so many housework tasks such as cleaning and laundry will become more difficult for them. They might need additional safety facilities in their houses. More seriously, they even have to move into special institutions.

Thirdly, *transportation*, apart from those who are bedfast or housebound, the elderly have more time to travel. But, on the other hand, many old people may be too old to use public transportation and have to rely on private cars. In special cases, they might be unable to drive private cars and have to hire a car with driver.

Fourthly, *health services*, though no period of life is free from illness or disability, there is clear evidence that the elderly have a greater incidence of both acute and chronic diseases than younger age groups. However, compared to younger people, there are more chronic diseases than acute ones in older people (Hendricks and Hendricks, 1971). Moreover, the elderly patients also differ from the young in their morbidity and types of diseases. For old people, due to the control of diseases such as measles, influenza, tuberculosis and gastroenteritis, and the improvement of public sanitary and medical sciences, not only is the average life expectancy greatly increased, but also new primary diseases such as malignant neoplasms (cancer), heart diseases, cerebrovascular diseases, atherosclerosis, arthritis rheumatism come to be the diseases which are more difficult to prevent and to recover from. Furthermore, they not only have a multiplicity of diseases but always an aftermath of impairments and disabilities (Shanas, 9-10, 20). All these indicate that the elderly need not only more health services, but also more expensive ones. Especially, this need will be intensified as old people grow older and their health situation becomes worse (Shanas, et al, 1968:36,52). In countries such as Taiwan where health services are not public or universally insured, the medical expenditure is certainly a heavy burden on

families with old people.

However, the needs of the elderly are not confined to only the above special individual needs. There are also social needs for the elderly to participate in various activities in their communities or societies. The characteristics of activities could be recreational, religious, political or altruistic ones. The participation in activities itself is not only a cause of benefit to their health, but also a good indicator to gauge their health.

## **2.5. The Income Maintenance of The Elderly**

### **2.5.1. The Coverage of Income Maintenance**

As Mike Reddin has mentioned, the coverage of income maintenance can be very wide (Griffith, 83). The widest view of income maintenance schemes could range from individual self-help through the collectives of private insurance to the occupationally based collective responses; from the workings of local authority income benefits and the court's role in compelling income transfers, to the major state social security systems and the tax treatment of them all. That is, from informal to formal, from private to public, from individual to collective, all sources of income can be included.

Analytically, the sources of income of the elderly can be listed as follows: (1) *employment*, (2) *savings*, (3) *investment*, (4) *family*, and (5) *social security*. Each source or provision has its merits and its limits. The application of any provision must be based on not only our subjective value-judgement, but also the objective socio-economic conditions.

Normally, the most direct and effective income provision for the elderly is employment. Of course, the status of employment can be further divided into employer, the employed and self-employed. As the scale of the enterprises of employers is certainly relative large, so this kind of enterprise could be a reliable source for employers. There would not be much income insecurity problem for them.



Their problems mainly come from the larger external economic environment. Comparatively, apart from the very extreme cases such as employers employing only one unskilled worker or the very wealthy self-employed, the financial status of self-employed will be on average much more disadvantageous than employers, because whenever the self-employed themselves become sick or disabled, there will be a financial crisis. As for the employed, their status is worse, because they will be compulsorily retired when they are up to retirement age even if they are still able-bodied, capable and willing to work. Although retired persons are free to re-undertake another jobs, either full-time or part-time, to earn their living, many of them will fail to do so because jobs are not always available for them in modern industrialised society, especially, if a society is in mass unemployment. As for employers, they are only the minority of the elderly. The majority of them are self-employed and the employed.

Secondly, as employment is not a safe income provision for the majority of old people, the other possible substitute is savings. Compared to investment, savings is a kind of indirect investment through financial agencies. People save some income when they work. Even the employers can also save some for their worst outcome, bankruptcy. The more they save, the safer their income provision. Of course, there is still a risk of inflation to erode the value of their savings if they deposit their money in only financial agencies such as bank, building society and insurance company. But, however, the most serious 'flaw' of this provision is that it will be meaningless or helpless for the elderly who are low income earners (for whatever reasons) and have no surplus income to save, or, even have some surplus but it is not high enough to save for an adequate provision (Reddin, 1978:35-37, 1985:33-34).

The third possible income provision for the elderly is investment. That is, the elderly engage in 'productive' activities by themselves directly before or after retirement. This provision has the same limits as savings, ie, unavailable for the low income earners. Compared to savings, because the money of investment is used in

buying stock or real estate, so this provision can be inflation-proofed by the appreciation of the property. If the elderly are originally employed, then they can also invest to establish their own enterprises and become self-employed or even employers if their capital is large enough. In this case, their risk will be similar to or the same as employers.

The fourth source of income for the elderly is their family, mainly children. Theoretically, the provision by children not only can avoid shortcomings of previous provisions, but also can reinforce the solidarity between parents and children. However, this provision is by nature inapplicable to the elderly who are single or married but without children. Even for those who are married and have children, if their children are non-adult, disabled, unemployed or on low income, this provision is still unworkable. Lastly, even if their children earn enough money, they may not be willing to support their parents, then this provision is still in vain.

Finally, the other provision which can avoid the above limitations for the elderly is formal social security. Firstly, because there are several sub-provisions within the field of social security which are based on different principles and financing methods, so many kinds of needs may be met by certain provisions of social security. In theory and in practice, social security shall have the function to prevent family from breaking-up owing to financial crisis. Of course, compared to other provisions, social security also has its own limits or side effects. Because most provisions of social security are administered by public authorities, either central government or local authorities, so the provisions could not be certainly available if the political climate is not in favour of them. Secondly, for provisions such as social assistance and universal allowance, in theory the entitlement to provisions is open to all people. Due to the huge number of beneficiaries, the benefit level could be very mean if there is no relative affluent economy to support this provision. Even where there are no such political and economic problems, because the benefits of social security are generally paid directly to the individuals, so there may be a side effect to alienate the original

intimate relationship of family or community owing to the decline of interaction which is in the form of personal mutual financial helps among their members. Without this kind of interaction, intimate relationship would decrease or even disappear. Although the intimate relationship between family members could be fostered and strengthened by other types of interaction, it is no doubt that financial mutual help is the most significant one. As for the merits and limits of different provisions in the field of social security, they will be discussed in detail in the next section.

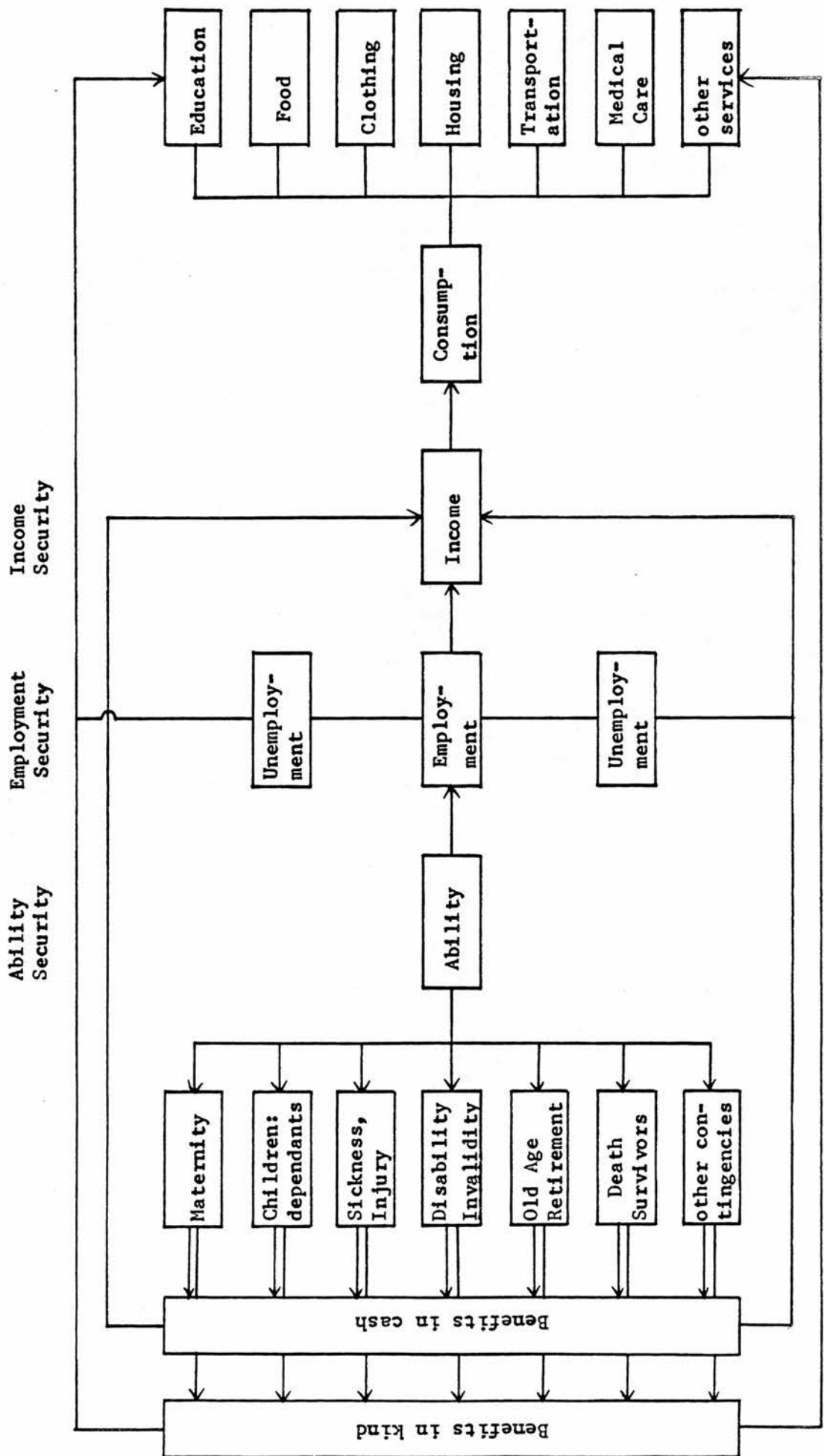
In summary, as each provision has its merits and limits, so the best policy for the elderly to maintain their income should be to help them to have multiple sources of income. The more sources they have, the safer their income maintenance.

### **2.5.2. The Provisions of Social Security**

The term 'social security' has become popular since it was used in the USA legislation, the Social Security Act of 1935 (ILO, 1984b:3). For analytical reason, in theory the field of social security can be divided into three sub-fields: income security, employment security and 'ability security' (see Figure 2.1). 'Ability security' here means the necessary standard of health, skill and knowledge for a man to live or to work. Normally 'ability' is the pre-condition of 'employment', and 'employment' is the pre-condition of earnings or income. If there are adequate and sufficient education, training and health care to make all, at least most, adult people ready for employment, then it will not be a difficulty for such people to be employed through the service of employment. If most people are employed, apart from the minority of low-income receivers and the people with special needs, there will be no income problem for the people any longer.

But, in practice, generally, 'ability security' is provided by health policy and education policy, and 'employment security' is provided by employment policy in social policy. So social security is restricted to only 'income security' in many countries. However, apart from the countries such as the UK and the USSR where

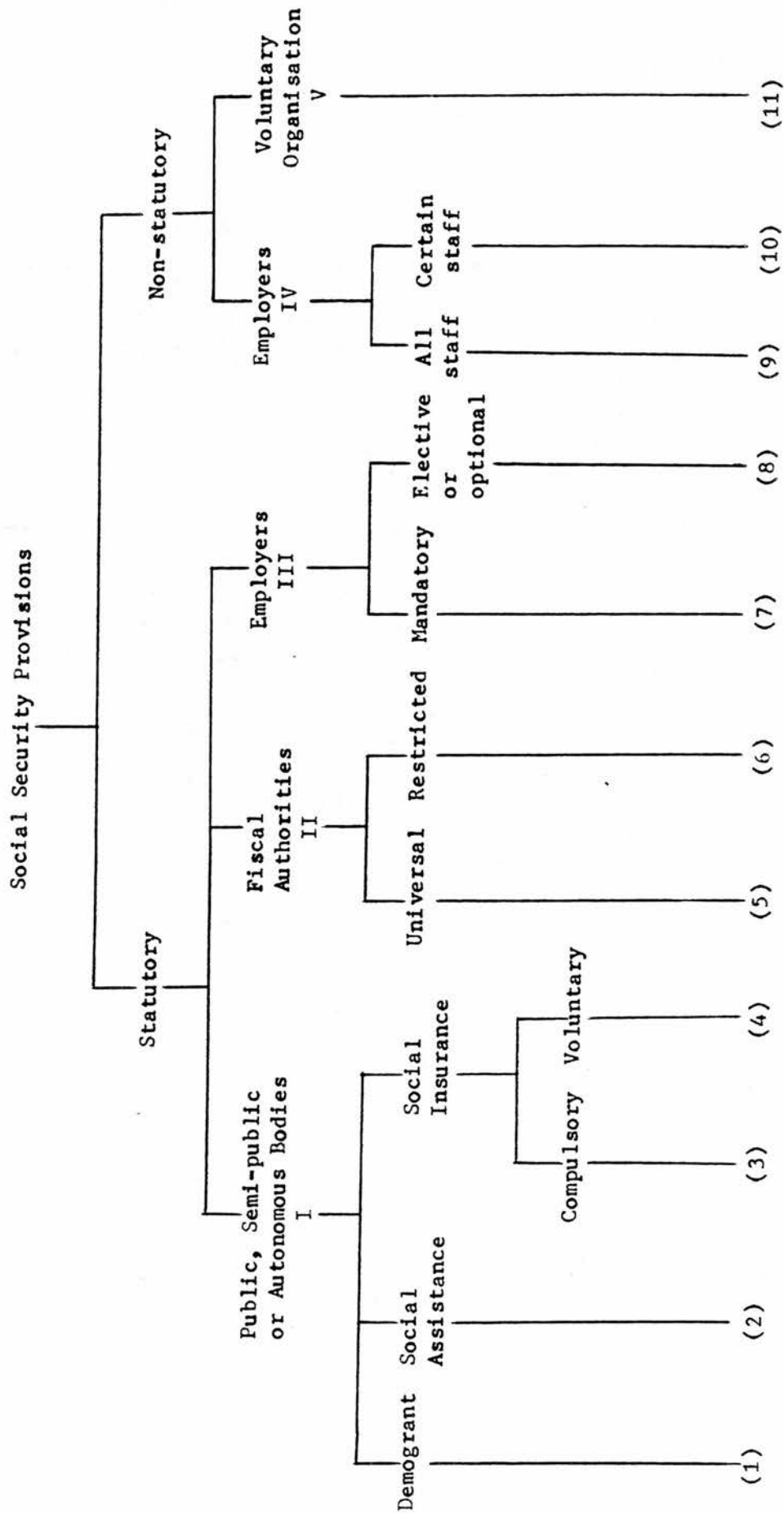
Figure 2.1 The Field of Social Security



health services are public or universal services, health services are conventionally included in the field of social security. For example, the ILO definition of social security formally confirms this convention. According to the definition of ILO, the provisions of social security should have the function of (a)granting curative or preventive medical care, (b)maintaining income in case of involuntary loss of earnings or important part of earnings, (c)granting supplementary incomes to persons having family responsibilities (Kaim-Caudle, 1973:9; Midgley, 82). Generally, most western welfare states tend to adopt this narrow definition of social security.

According to Prof. Kaim-Caudle's study of ten countries, he classifies the provisions of social security into eleven types of different schemes and illustrates in detail the schemes in each type (see Figure 2.2) (1973:8-11). Midgley admits that this is the most comprehensive typology of provisions in the social security field, but he criticizes this typology as too broad and unwieldy. For this reason, he introduces a new classification of only four provisions of social security, ie, social assistance, social insurance, employer liability and social allowances (83-85). This classification is similar to Myers' one without his 'subsidized voluntary insurance' (7) and is followed by Dixon but he adds 'provident funds' (1986:5). But according to Midgley, because there is not much difference in basic features between provident fund and social insurance, so he does not classify provident fund as an independent provision (84). Based on the same reason, the author further classifies employer liability also as a special branch of social insurance. Therefore, the provisions of social security in this thesis are further simplified as only three main categories: social assistance, universal allowance (ie, Midgley's social allowances) and social insurance. Of course, except social assistance, the provisions of social security can be further classified into two or three sub-provisions or sub-patterns respectively. Generally we can distinguish these three main provisions by two criteria: (1) the sources of financing and (2) the conditions of entitlement to benefits. Firstly, social assistance and universal allowance are financed by general revenue (ie, taxation), but social insurance is financed by contributions.

Figure 2.2 Classification of Social Security Provision



Source: Kaim-Caudle, 1973:8

Secondly, the entitlement to benefits is decided by 'financial test' (or 'pecuniary test') in social assistance but it is not necessary in universal allowance. As for social insurance, its entitlement is decided mainly by contribution records.

Generally, the main criterion to distinguish social assistance from universal allowance is financial test. If the financial test takes all sources of means such as earnings and capital into account to assess one's entitlement, then this test is called a 'means test'. But if it takes account of only earnings, then it is an 'income test'. So, comparatively, 'means test' is more severe than 'income test'. Most existing social assistance benefits such as Britain's SB (or IS), FIS (or FC) and HB must pass a means test. But the proposed new schemes such as negative income tax (NIT), tax credit and benefit credit seem to require to pass an 'income test' only. Whenever the financial test is replaced by a non-financial or non-pecuniary test such as tests of residence or age, then the provision will be transformed into a universal scheme, not social assistance any longer.

In universal allowance, the existing schemes are only child benefit in a number of countries, old age pension in New Zealand, Canada and Denmark and disability allowance in Finland (Midgley, 101). Their beneficiaries are restricted to children, the elderly and the disabled only. So, strictly speaking, as their coverage is not the whole population of a country, they are not real universal allowances. The real universal allowance provisions should be 'basic income' or 'social dividend' which will cover the whole population of a country. However, the public health services in the UK and USSR are real universal services though they are not covered in the field of social security. In order to get a precise concept, the author defines the universal services which providing for only children, old people, etc, as *sub-universal allowance*, and the proposed provisions such as 'basic income' and 'social dividend' as *all-universal allowance*. As there are no actual all-universal allowance schemes at present yet, we may use 'universal allowance' to mean only 'sub-universal allowance' conventionally. In that case, we may entitle them as 'universal child benefit' or 'universal old age



pension'.

In the field of social insurance, in principle, all schemes or provisions as long as they are financed by contributions, either by employers or employees or both of them, should be included. Employer liability and provident fund are therefore classified as social insurance, not as independent schemes in this thesis any more, because they are contributory schemes. Due to the diversity of the covered schemes and for the sake of analysis, a classification of the covered schemes in social insurance is necessary. For the purpose of classification, there are several criteria available. For example, if the classification is based on the character of the management body, then those schemes managed by public bodies can be classified as 'public social insurance' and others managed by private bodies will be classified as 'private social schemes'. Or, if it is based on benefit level, then the schemes can be classified as 'flat-rate social insurance' and 'earnings-related social insurance'. Or, finally, based on the point of their basic character and principle, then the covered schemes might be classified into two sub-provisions: primary and secondary.

'Primary social insurance' includes all public schemes such as NI in Britain, OASDHI in the USA and LI and GEI in Taiwan. Moreover, it also includes the schemes such as industrial injury, occupational diseases and unemployment insurance which are entitled 'employer liability' by many academics such as Midgley and Dixon. Generally, primary social insurance emphasizes the traditional principles of social insurance such as risk pooling, mutual aid and redistribution. The purpose of this sub-provision is to provide basic protection for the insured persons. It emphasizes the criterion of 'primary adequacy' rather than 'secondary adequacy' and its benefits are generally flat rate or mildly earnings-related. The meanings of 'primary adequacy' and 'secondary adequacy' will be discussed in section 6 in detail.

As regards 'secondary social insurance', although it is also contributed to by both employers and employees like primary social insurance, compared to the primary



schemes, it emphasizes the actuarial principle rather than those of risk pooling, redistribution and adequacy. It includes schemes such as occupational schemes, mandatory private insurance and provident funds which are in fact a kind of compulsory saving scheme for the employed to provide benefits in relation to their earnings. In many ex-British colonies the role of provident fund, a provision of secondary social insurance, is much more significant than that of primary social insurance.

After listing different provisions of social security, the question that follows is which provision should be chosen to provide services for different contingencies. If we view different provisions of social security as different ways to provide a variety of benefits, then only after we have a general understanding of the characteristics, functions and limits of different provisions, can we have a sound basis to make our options. For the sake of simplicity, the author tries to make such a discussion based on only three main provisions or three main ideal types of social security.

As the choice between universality and selectivity is a very important issue in the field of social policy (Jones, et al, ch 3; Reddin, 1970b, 1978, 1981), I use these two concepts to construct a continuum as a framework to explain the features and function of the three main provisions of social security. Within this continuum, if the right end is the extreme degree of selectivity and the left end is the extreme degree of universality, then social assistance will be located at the right third of the continuum, universal allowance at the left third of the continuum, and social insurance at the mid. Comparatively, because there is a strict financial discrimination, ie, means test, in social assistance, so the actual beneficiaries in social assistance are generally very selective and limited although its application is open to all citizens no matter they are out of or in work. For example, in Britain SB (supplementary benefits) or IS (income support) is available for the people who are out of work, FIS (family income implement) or FC (family credit) is available for the family whose breadwinner is in full time job. On the other hand, in theory the benefits of universal allowance will be paid

to all citizens equally without any discrimination, so its population of beneficiaries can reach the highest level.

The feasibility or applicability of each provision has a close relation to its benefits expenditure. If the expenditure of a provision is too high, there will be little chance for it to be implemented without corresponding financing ability. Compared to financing ability, however, benefit expenditure is easier to be managed or regulated. So we would like to discuss the feasibility of each provision by its potential magnitude of benefit expenditure. The provision with lower benefit expenditure will be more feasible than that with higher benefit expenditure.

Then, how about the benefit expenditure of each provision? Because the benefits expenditure of each provision is directly decided by the number of beneficiaries (coverage) and the level of benefits (benefit) of each provision, so whenever these two elements, coverage and benefit level, can be compared, then the total benefits expenditure of each provision also can be compared.

From the point of coverage, because the coverage of universal allowance is the whole population, so its coverage is definitely larger than social insurance or social assistance. As for social insurance and social assistance, if their benefits are relatively low at the level of subsistence, then, on one hand, in social assistance most people will be able to contribute and, on the other hand, in social insurance most people will not be able to pass the means test, so the coverage of social insurance will be larger than social assistance. But if the benefits level are relatively high, then the coverage of social insurance will not certainly be larger than social assistance any more.

From the point of 'benefit', the levels of each provision could vary greatly and irregularly. Each one could be either the highest one or the lowest one. Only if they are flat rate, then their benefits expenditure can be compared according to their coverage. So, in case of flat-rate benefit, we can safely conclude that universal

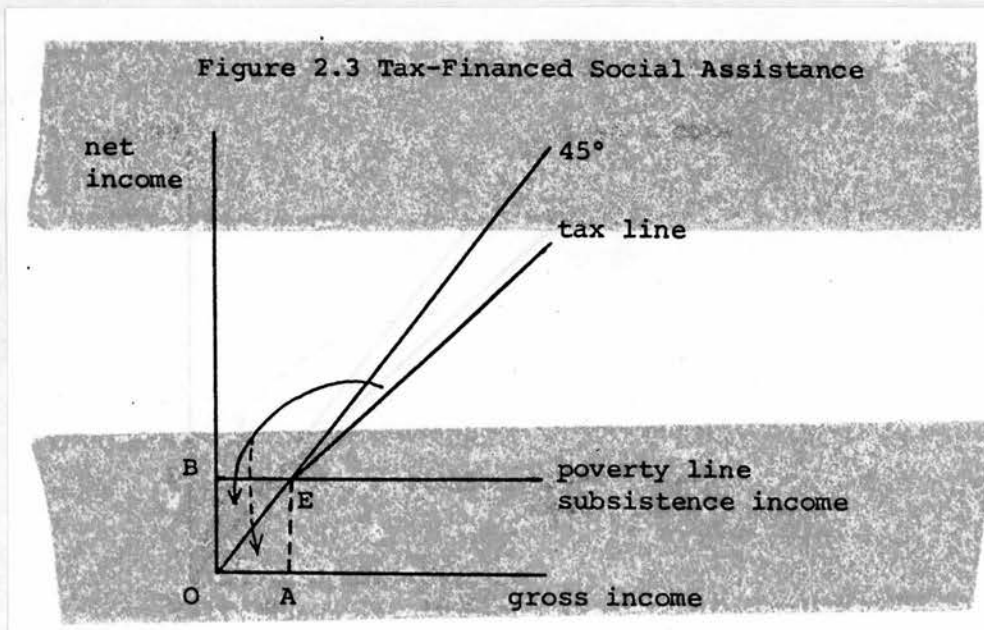
allowance is the most expensive one, social assistance is the cheapest one and social insurance is in the middle.

Finally, from the point of view of the administrative cost per beneficiary, social assistance is the most expensive one due to its complicated formality of means test, and universal allowance is the cheapest one because no means test is necessary. As for social insurance, because its contributions test is generally not so complicated as means test, so it will still be in the middle.

Apart from the economic ability of a society to finance certain provision, the function and side effects of different provisions are also very important factors in the making of social security policy. Historically, social assistance has a very long Poor Law tradition. In earlier times, as the level of industrialisation was very low, there was no significant structural unemployment. Most cases of poverty were believed to be the result of personal faults. Since a great majority of people were poor, the principles of work ethics, less eligibility (or wage stop) and the strict tests of means, income, work and residence were common. So are they even today. Under this tradition, not only will the level of benefits be very low, but also the number of beneficiaries will be very small. Although the administrative cost per beneficiary of social assistance is much higher than other provisions, its amount is much less than the benefit itself. So the conditions of a very small number of beneficiaries and a very good targeting of coverage will make social assistance provision the most economical one in social security.

However, because social assistance is financed by the general revenue of the government, so in theory its entitlement to application should be open to all residents in a country whether they are in or out of work. Recently, in Britain even the voluntarily unemployed are also entitled to help though their waiting period is much longer than that for the involuntarily unemployed. As long as one can pass the necessary means-tests, anyone can get a help from this provision. For the same

reason, as this provision is financed by general revenue, the beneficiaries are not obliged to contribute anything, so the receiving of these kinds of benefits is actually like a form of 'public charity' or 'free lunch' at the point of consumption. As the entitlement to benefits is decided by means tests, as shown in Figure 2.3, if the tests are not strict enough, then, for those whose income are less than OA or OB, waste, abuse and disincentive to save and to work are the inevitable results. In this case, though the theoretical benefit expenditure should be area of OAE or OBE, the actual expenditure will be the area of OAEB (ie, the total of OAE and OBE) due to the disincentive effect caused by the high marginal tax rate up to 100%. Therefore, in order to avoid these side effects, a stricter test policy to lower the poverty line is necessary; but this measure will cause other undesirable side effects such as stigmatising, discouragement of personal saving and low take-up. This is the dilemma of social assistance. It is clear that the criterion of test (OB) for the qualification of assistance is the most crucial point of social assistance.



Furthermore, in a very poor society, in theory there would be even a vicious circle effect in the implementation of social assistance. As most people are poor, they would go to apply for assistance and would not care about the stigma and inferiority at all.

All of them would pass the tests. So the number of beneficiaries would be very large. This financial burden would be an overload for government. In order to reduce the number of beneficiaries, the tests must be much stricter than before. Finally, the level of assistance would be forced to decrease to a meaningless low level. Nevertheless, when a society becomes more developed and more affluent, social assistance will turn out to be an unpopular provision, in that time a more popular one will be social insurance.

Comparatively, social insurance is a further development of private commercial insurance but it adds the element of *compulsion* in order to meet the principles of large numbers, risk pooling, mutual help and income redistribution which we want to achieve. It is a provision not so selective as social assistance. However, if a sense of solidarity and a relative affluent economy are lacking in a society, the creation of this kind of provision will be impossible, because people will either not like to pool the risk or have no surplus money to contribute. As social insurance is a contributory provision, its benefits are the earned right from its obligation of contributions, so the problems of stigmatising and work disincentive in social assistance can be avoided. Only the contingencies such as unemployment and sickness which can be made to occur on purpose can be abused and cause work disincentive. Fortunately, it is technically possible to discourage these effects by using longer waiting period and stricter registration. Nevertheless, social insurance faces its own problems or limits. The most important one is its *exclusion*. It is liable to have an exclusion of both contingencies and coverage.

Firstly, as social insurance protects its insured persons only from prescribed or contracted contingencies, all other un-prescribed or un-contracted contingencies are excluded from its obligation. Secondly, in theory as social insurance is contributory on an employment base, except short-term sickness and unemployment, all residents who are long-term unemployed, self-employed or employed by small enterprises or employed in un-paid, irregular and part-time work, especially those people who are

not in the labour force, are always excluded, because either their contributions are too uncertain or the cost of collection of their contribution is too high. Research evidence demonstrated that this weakness was more serious in developing countries (MacPherson, 1985). Thirdly, for all newly-established schemes, as there is a period of maturation or transition, those whose working lives are not long enough to cover this transition when the law is first passed or the system is inaugurated will be excluded. Or there will be tremendous windfall gains reaped by those who are already elderly and this will destroy the insurance character of the system as a whole (Burns, 30-32). Unless there is a substantial government subsidy, this exclusion cannot be easily tackled. In one word this exclusion is the vital weakness of social insurance.

Apart from this major weakness, there are other more minor shortcomings. Firstly, social insurance is generally based on the actuarial principle, so even if a person is included in a programme, he is still not entitled to any benefit if his length of contribution or working is not sufficient. Secondly, primary social insurance is based on the assumed needs and the assumed ability to contribute. So, in case of the flat rate system, the contributions may be too high for low income people to pay. As for the benefits, either earnings-related or flat rate, they may be insufficient for the special needs. That is, social insurance can guarantee benefits but not the amount of the benefits (Shragge, 29). These shortcomings greatly weaken the expected function of social insurance. Especially, these weaknesses might be even worsened and distorted in many developing countries in the third world. Because the majority of the population in those countries are in primary industry or agricultural sector and all social insurance schemes include only better-off industrial workers who are in secondary and tertiary industries, their schemes thus reinforce and amplify the economic inequality by transferring resources from the lower income farmers to the higher income industrial workers (Midgley, ix, 2, 185, 190). This is another undesirable adverse function of social insurance in many developing countries.

As both social assistance and social insurance have their weaknesses and

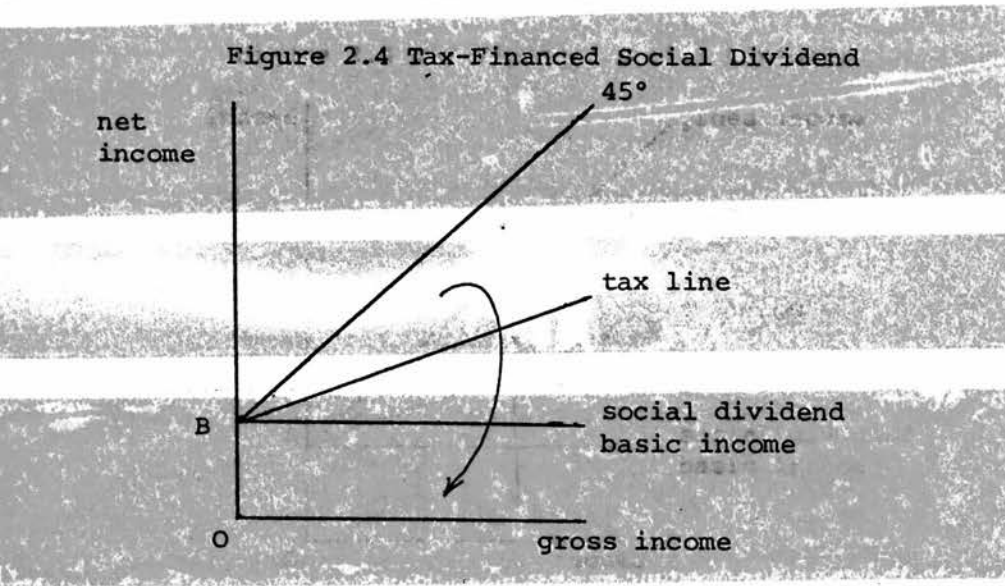


shortcomings, the other option of provision without all these shortcomings is the universal allowance. Because this provision is financed by general revenue and its benefits are exempted from all kinds of economic tests, so it can overcome the problems of exclusion and stigmatising. In theory all residents and contingencies should included. For example, the proposed 'social dividend' or 'basic income' is the ideal type of universal allowance. According to the description of Deacon and Bradshaw, a social dividend is such that 'everyone in society receives a dividend or payment by virtue of citizenship. The payment may vary by family composition, age or status. This payment is tax free, but all other income is taxable..... The purpose of social dividend is to abandon the distinction between taxes and benefits, abolish the problems of means-tested benefits and do away with the unemployment trap' (182-183). As long as the benefit level is not high enough to cause substitution effect, there will be no fear of discouraging people from working. So this is really a very good proposal to replace both social assistance and social insurance.

The main problem of universal allowance is that its benefits expenditure will be extremely high if we want to provide an adequate benefit which can meet the needs of beneficiaries. That will be beyond the financing ability of existing taxation systems, not to mention the low taxation ability in developing countries. On the other hand, if we want to restrict the cost according to the capacity of taxation system, then the benefit level will be too low to meet the needs of most people. So the problem is still there. Furthermore, for working and paid population, it is also an unnecessary administrative waste to pay them basic income on one hand and to impose taxes on them on the other hand. And it is technically difficult to find a way or at least it will be a very elaborate and costly tax system. If we plan to tax less or to pay benefits less in order to avoid administrative waste, then the basic income will be able to be paid only in lump sum at the end of the fiscal year as tax. This kind of revised universal allowance will be no different from negative income tax or social assistance. The difference between them is that tax-financed social dividend or basic income can



avoid the disincentive to work because its benefits are exempted from tax. Of course, the tax needed to finance the system will be extremely high if the level of benefits is to be paid at an adequate level (see Figure 2.4).



So, a tax-financing universal allowance scheme is efficient only at the level of sub-universal allowance such as child benefit and old age pension if and only if all their beneficiaries do not earn high enough to be liable to be taxed. Any way to administer an all-universal scheme can be efficient only if it can avoid the above administrative waste. As the author will discuss in chapter 5, to shift the financing source of the scheme from taxation to economic production could be a feasible alternative.

### 2.5.3. The Financing Effects of Social Security

Technically, financing is the input of social security. There are two sources of financing in social security, that is, taxes and contributions (or premiums). When the financing resource is tax, its base in general includes all sources of income such as earnings, interests, rents and profits though the tax rates among them might differ greatly. As income transfer is the main means to achieve most aims of social security and progressive tax is the most effective way to collect large amount of

revenue from the rich, the progression of its tax is the main concern of many scholars. Generally direct tax is more progressive than an indirect one, so most scholars prefer direct tax to indirect one. In the field of indirect tax, the progressivity will be very low or even negative if the taxed subjects are only consuming daily necessary goods. In the field of direct tax, the progressivity also differs greatly according to the type of rate and the level of threshold. The rate can be prescribed as the progressive rate, proportional rate and regressive tax including flat rate tax such as poll tax. Comparatively, poll tax is the most regressive one among the three types of tax. As for the threshold, under a fixed tax rate the higher the level of threshold, the more progressive the tax is.

Another financing source of social security is contributions. Compared to tax, contributions are imposed only on the earnings of labour in employment. Generally they are shared by employers and employees, and occasionally with a share or subsidy from government. For some special contingencies such as industrial injury and unemployment, the contributions might be borne by only employers. There is the problem of shifting, ie, the real incidence of contribution might be finally shifted from the employers to the employees, or even from the producers (including both employers and employees) to the individual consumers (Reddin, 1977, 1978, 1983; Griffith, 81-101). The shifting will be conditioned by the elasticity of demand for products and the wage level of the employed.

Traditionally the management of contributions is based on a funded system. Under this system the accumulated funds are the best basis to guarantee the long-term benefits in the future. An advantage is that its huge amount of funds can be used for public or economic investment. Moreover, because there is an actuarial principle in the management of the fund, there is an incentive to prevent irresponsible benefit rises and careless risk rises (ILO, 1984a:88-89). This will be helpful in preventing a financial crisis. Unfortunately, in the modern money economy this system faces a ubiquitous threat, inflation. For this kind of threat, we may consider or use the gains

or profits of the investment from the contributions fund as a resource to compensate the loss in capital value caused from inflation. But, as Morgan (35-37) argued, the function of this method will be greatly reduced after retirement, because, on one hand, there will be a stop in contributions and, on the other hand, there will be a claim of benefit, so it will be very difficult to expect the profits from the fund to be able to keep up with inflation and to index its benefit accordingly. In most cases, inflation will erode the value of the funds of contributions in the long run. In the worse outlook, if the financing is in deficit due to unsound actuarial condition or other reasons, then the system will in fact be no different from the pay-as-you-go system.

Another different way to tackle the problem of inflation is to abandon the funding of the contributions and to use instead the pay-as-you-go system. That is, this year's contributions pay for this year's benefits (Kaim-Caudle, 1973:133; ILO, 1984a:85-86; DHSS, 1985a:12; Morgan, 30-31). Technically, in pay-as-you-go system we consider all long-term contingencies such as child, old age and disability as short-term contingencies which are shorter than one year, so it is theoretically rational to use this year's contributions to pay for this year's benefits. And next year's benefits will be paid by next year's contributions. Under this system, the loss of benefits value in inflation can be compensated flexibly by raising contributions. However, its new risk or new uncertainty is that, because the level of benefits is dependent on not only the willingness of existing contributors but also their economic ability to contribute, so the level of benefits is not guaranteed. Further, the real level of benefits is also dependent on the political power of the beneficiaries. Whenever the financing system of a provision does not have its contributions funded any more, then its contributions will not be different from a tax, because contributions are also compulsory. For this reason, in some countries such as the USA contributions are formally called a 'payroll tax', a kind of earmarked tax.

However, there are several differences between payroll tax and general revenue. First, the base of contributions includes only earned income; capital gains and the

other sources of income are excluded. Second, in many countries there is no allowance for contributions, sometimes even no threshold; all earnings are obliged to contribute. Third, the contribution rate is either proportional or flat-rate; progressive rates are not common. Fourth, there is always a ceiling to exempt all earnings over that level. Due to these differences, the progressivity of contributions is much less than general tax. For this reason, some scholars suggest that contributions could be abolished and substituted by general revenue (ILO, 1984a:89-90).

Due to the improvement of living standard and the progress of medical services, on one hand, the life expectancy of people has been significantly increased, more people can live into old age, ie, the percentage of old people increase; on the other hand, family planning or birth control has been more effective, less babies have been born nowadays and will continue to be so in the future, ie, both old dependency ratio and ageing index will increase. So we can reasonably expect that the ratio of contributors to pensioners will significantly decrease in the future. This means that, on one hand, the expenditure of the provisions will grow; on the other hand, its revenue will be reduced. So, under pay-as-you-go system, the change of this ratio certainly means a change of the financial obligation of the future contributors. According to a tabular form presented by Prof. Kaim-Caudle (see Table 2.2), we can clearly calculate out the financial burden, ie, contribution rate, of the future generation if the ratio of contributors to pensioners changes given a certain replacement rate in a pay-as-you-go system. For example, under the replacement rate of  $1/3$ , if the current ratio of contributors to pensioners is 8-1, then the contribution rate will be only 4.0%; but if ratio is reduced to 3-1, then the contribution rate will increase to the level of 10.0%. This table will be fully used in chapter 8 to calculate the financial burden in Taiwan if a pension scheme is established based on pay-as-you-go principle.

Table 2.2 The Contribution Rate of Social Security Pension (%)

Ratio of Earners to Pensioners	Ratio of Pensions to Net Earnings							
	1/8	1/7	1/6	1/5	1/4	1/3	1/2	2/3
2-1	5.9	6.7	7.7	9.1	11.1	14.3	20.0	25.0
3-1	4.0	4.5	5.3	6.3	7.7	10.0	14.3	18.2
4-1	3.0	3.4	4.0	4.8	5.9	7.7	11.1	14.3
5-1	2.4	2.8	3.2	3.8	4.8	6.3	9.1	11.8
6-1	2.0	2.3	2.7	3.2	4.0	5.3	7.7	10.0
7-1	1.8	2.0	2.3	2.8	3.4	4.5	6.7	8.7
8-1	1.5	1.8	2.0	2.4	3.0	4.0	5.9	7.7
9-1	1.4	1.6	1.8	2.2	2.7	3.6	5.3	6.9
10-1	1.2	1.4	1.6	2.0	2.4	3.2	4.8	6.3

Note: If

x = the amount of gross earnings,

a = the amount of contributions,

n = the number of earners,

na = the amount of pensions,

x-a = the amount of net earnings,

then,

ratio of pensions to net earnings =  $\frac{\text{pensions}}{\text{net earnings}} = \frac{na}{(x-a)}$   
 $= 1/5 \text{ or } 1/3, \text{ etc.}$

Source: Kaim-Caudle, 1986:91

If social security contributions are considered as a kind of special earmarked tax, ie, payroll tax, then we can use 'tax' as an indicator or operational definition of the cost of social security. As 'all systems of taxation have effects on the economy' (ILO, 1984a:88), we should have a clear idea how this 'tax' (including general taxes and contributions) will influence the economic activities of individuals and the domestic market. Firstly, from individual point of view, the reaction to the increase of 'tax' could be one of the following options. An individual may a) keep consumption unchanged and reduce savings; or b) keep savings unchanged and reduce consumption; or c) reduce both consumption and savings. The second possible reaction could to work harder or longer in order to maintain the original level of consumption and savings after being taxed (Kaim-Caudle, 1986:97). The third possible reaction is to work less in order to avoid paying more 'tax' and to opt for more leisure (the 'substitution effect' of the rising of 'tax'). If the 'income effect' is stronger, then the second reaction will be choice of individuals (Hemming, 11-12). Actually much evidence shows that the

black economy is also a very attractive choice for the people (Gelber, et al; Painton and Malkin; Rosa, 1982:62; Parker, H., 1982:59-60).

Secondly, from the viewpoint of the aggregate households, in the long run the rise of 'tax' may have two different effects: 1)it may finally erode the tax base and lead to the reduction of tax revenue, so it will lead to an economic recession; 2)it may increase or at least maintain national consumption and demand through paying equal amount of benefits to beneficiaries, so the economic prosperity can be maintained and an economic recession can be avoided. In the first case, the effects will be caused through the following possible paths though they are not all justified and conclusive (see Figure 2.5).

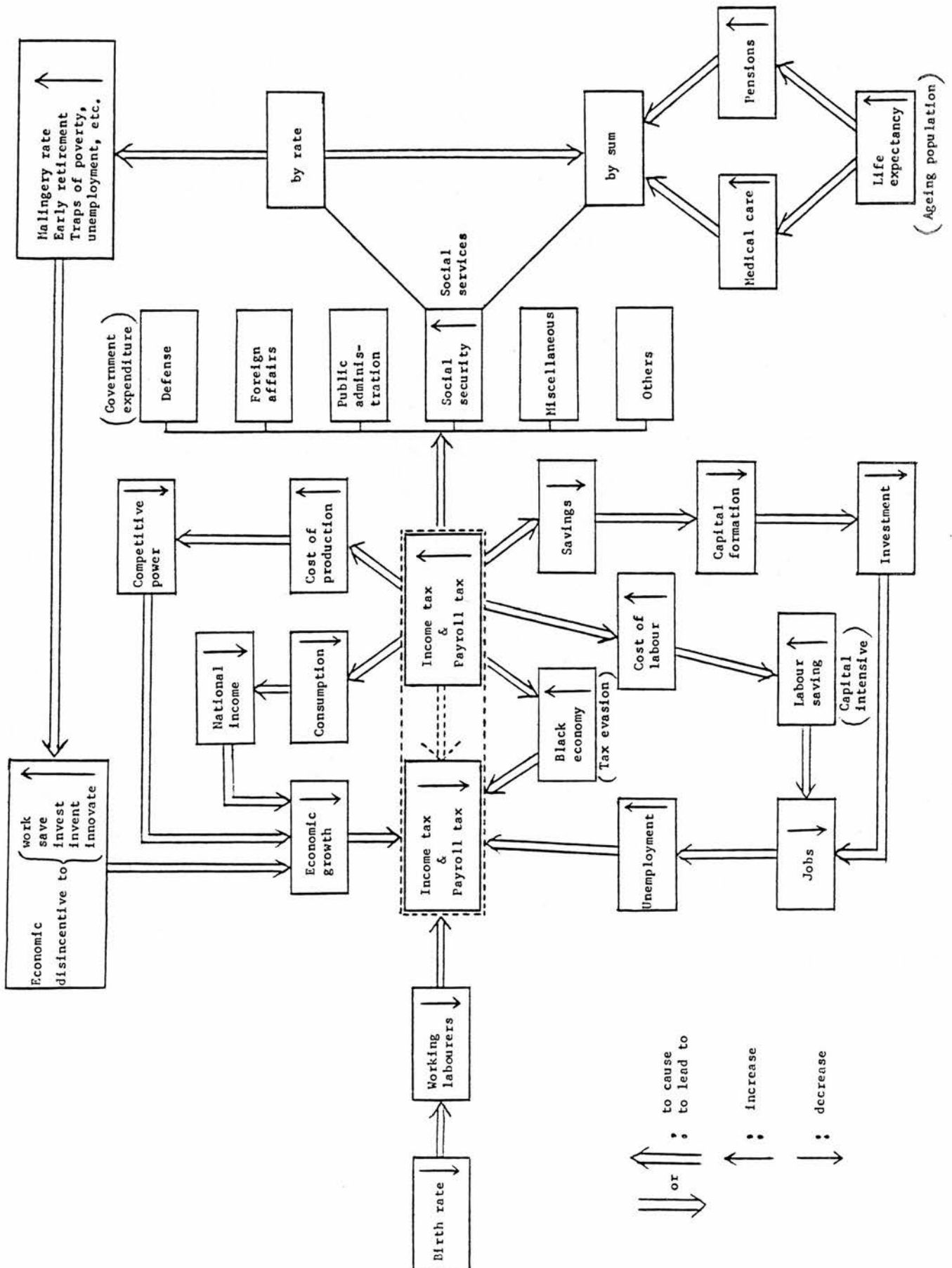
1)If the rise of 'tax' raises the cost of labour and its products, it will reduce the competitive power of the enterprises. Some less competitive enterprises will be unable either to pay higher wages or to raise the price of their products, so finally they will go bankrupt. Other competitive enterprises will adopt new policies to develop labour-saving technology in order to maintain their profits, so redundancies and unemployment will go up (Aaron, 53-56; ILO, 1984a:86-87).

2)If the rise of 'tax' reduces the aggregate savings, either individual enterprises or the whole market, the investment will be seriously retarded. Economic recession will inevitably result (Aaron, 51-52).

3)If the rise of 'tax' reduces the amount of consumption, either family or national, this will lead to the insufficiency of aggregate demand, this could cause a recession of the economy.

4)When the rise of 'tax' is in order to provide more benefits and to promote the level of benefits, if the benefit level is high enough to cause malingery, early retirement, traps of poverty and unemployment, and the disincentive to work and to save, then the economic growth will suffer (Aaron, 53-60).

Figure 2.5 The Effects of Tax Increase





In the second case, although the rise of 'tax' will increase the cost of labour and production and even reduce the savings and consumption of the tax-payers directly, on the other hand, it will greatly increase national consumption and demand because most benefits are paid to pensioners and low income people. This will compensate for the previous loss of savings and consumption. In this case, social security will have an important role in reducing recession because it keeps up demand. But because it is only a redistribution of income and consumption, so from the whole society point of view, though they can maintain the level of demand, this should not be considered as a way to create wealth. Finally, as social security expenditure is only one item of all government expenditure, the rise of 'tax' is not all for social security, so it is quite unfair to accuse social security of being responsible for the recession of the economy (ILO, 1984a). All assumptions need to be examined carefully with evidence.

## **2.6. The Criteria for The Assessment of Provisions**

As mentioned in the previous section, in both income maintenance and social security there are several provisions which have different merits and weaknesses. These factors, either merits or weaknesses, are certainly very important for some provisions to be more popular than others. However, in the discussion of the options for the reform of income maintenance or social security provisions, some more basic criteria are useful or even necessary to justify our actions. There are many criteria available for this purpose. For example, McClements(68), Musgrave(243), Buchanan and Flowers(75) applied two criteria, efficiency and equity, in their studies. Le Grand and Robinson(1-2) raised four criteria, efficiency, equity, freedom (or liberty) and altruism in their study though they in fact mainly used the same two criteria: efficiency and equity. Knapp(70) even raised five criteria: efficiency, equity, autonomy, liberty and diversity. However, in this thesis the author tries to apply the four criteria---- equity, adequacy, economic efficiency and simplicity ---- raised by H. Parker (1984:52-54) as the basis of his discussion. But, the criterion of 'simplicity' is renamed as

'administrative efficiency' in this thesis.

According to the dictionary, the descriptive definition of 'equity' means a state of being fair and just; 'adequacy' means a state of being enough and sufficient; 'economic efficiency' means being effective and producing; and 'administrative efficiency' means being easy, simple and effective in administration. Explicitly, all of them are comparative and relative concepts. There must be other more concrete indicators as standards to compare, then the state of each criterion can be objectively judged whether they are equitable, adequate, efficient and simple or not. That is, apart from these formal definitions, we need to define 'operational definitions' or 'working definitions' for them, especially for the criteria which are more subjective such as 'equity'.

#### **2.6.1. Equity—horizontal and vertical**

Compared to other criteria, 'equity' is highly value laden. To judge the equity of a situation or an event can be based on many other criteria or even sub-criteria independently or interdependently as long as those criteria or sub-criteria are desirable. As Mehr and Cammack (656) analyzed, the concept of equity can be divided into three elements: reasonableness, impartiality and fairness. Any violation of these three elements will contradict the criterion of equity. Positively, as Le Grand and Robinson (9, 223-226) have mentioned, the criterion of equity will be fulfilled if the following conditions or standards can be satisfied.

1. Full equality----- mainly about the equality in outcome and results, e.g. every member of society should have the same income; everyone should have equal treatment for equal health care needs; everyone should receive equal education subject only to their abilities; everyone should have equal rights before the law; everyone should have equal voting rights.
2. Minimum standard----- no person should fall below a socially specified minimum level of income or consumption; every family should live in a decent house with all the basic amenities even though some families would have better quality housing than others.
3. Equality of access----- mainly about the equality of conditions

and means, e.g. everyone should have equal opportunity to access services and to accept education; procedural justice such as lottery is also included.

4. Inequality----- some members of the society should be distributed different income according to need, desert, merit; some individuals should be distributed more income due to their extra efforts, sacrifice and savings.
5. Equality, but not...----- all kinds of equality are justified as long as they do not trade off or contradict with other criteria or objectives such as efficiency, incentive to work, liberty, simplicity,...

As equity itself can imply so many desirable criteria or objectives, each option is possible. Based on this reason, in this thesis because the author has decided to apply H. Parker's four criteria, equity, adequacy, economic efficiency and simplicity, to judge the scheme of social security, so the objective of 'minimum standard' can be included in the criterion of 'adequacy'. So, according to the operational definition of Le Grand and Robinson, the discussion of the criterion of equity will be based on 'equality' and 'inequality' in this thesis. As both 'equality' and 'inequality' could be equitable (fair) or inequitable (unfair), so 'equality' and 'inequality' by themselves cannot be judged equitable or inequitable any longer. The judgement of equity must be accompanied by further more specified 'situations' or 'pre-conditions' of equality or inequality.

In the field of social security, the criterion of equity can be applied to both its financing side about the imposition of taxes and contributions and its benefit side about the distribution of benefits (both in cash and in kind). On both sides the possible options are to impose taxes and to distribute benefits equally or unequally. For example, as H. Parker (1984:53) mentioned, "equity in this context is taken to mean equal treatment, between men and women, married and single, young and old. It means treating each person as an equal citizen. It means neither penalising nor favouring marriage. It means disability benefits according to the extra costs incurred by the disabled person, not according to the cause of the disability or the contribution record", explicitly, she was applying 'equality' as the sub-criterion to define 'equity'.

Her definition is consistent with many scholars such as Knapp (73), Musgrave (244), Buchanan and Flowers (95, 97), Hemming (10-11), Culyer (1973:87), Due and Friedlaender (205). All of them agree that it is fair and equitable to treat people equally if they are in equal situations and circumstances. That is, either 'equals are treated equally' or 'equal treatment for equals' is equitable. This type of equity is entitled *horizontal equity*. Universal allowances and all kinds of flat-rate schemes are based on or in pursuit of the criterion of horizontal equity.

But, on the other hand, when H. Parker (1984:53) mentioned, "but it [equity] does not mean the same benefit and/or tax relief right across the board, because equity does not mean sameness. Some people need more money and some less in order to live at the same equivalent living standard. For instance, an adult needs more than a child, and an old or disabled person needs more than some one who is able-bodied", she seemed to apply the sub-criterion of 'inequality' to define 'equity' because the beneficiaries are treated unequally. That is, either 'unequals are treated unequally' or 'unequal treatment for unequals' is equitable. This corollary is entitled *vertical equity* by the above academics. For all provisions of social security, as long as the treatments are different and unequal, they are based on or in pursuit of the criterion of vertical equity.

From the standpoint of 'treatment' itself, in theory there is no contradiction between *horizontal equity* and *vertical equity*. Problems arise owing to the categorization of the targeted group or population. If the whole population of a country is considered as one homogeneous category by the standard of citizenship, then the principle of *horizontal equity* is applicable. On the other hand, if the population is categorized by many standards such as sex, age, marital status, employment status, educational attainment and economic status, then the population will be classified or divided into numbers of categories. As all categories are more or less different from each other in some standards, so these categories should be treated by the principle of *vertical equity*. But within each category its members are

alike and homogeneous, they should be treated equally by the principle of *horizontal equity* again. For any targeted group or category, the application of the equity principle is dependent on how the group or population is classified.

Both on the financing side and benefit side, the equality or inequality of treatment can be in amount or in rate (%). For example, flat-rate taxes, flat-rate contributions and flat-rate benefits are equal treatments in amount. If taxes, contributions and benefits are related to a given percentage (e.g. proportional rate) of people's earnings, then the treatments are still equal in rate, but they are not equal in amount any more. Comparatively, the equality or inequality of treatments in amount is more feasible on the benefit side than on the financing side, but that in rate is more feasible on the financing side than the benefit side. Especially, in the case of unequal treatment in rate, the increasing rate will be progressive, and the diminishing rate will be regressive.

Nevertheless, the discussion of equity is not restricted to only the aspect of 'treatment'. The discussion has been extended from 'treatment' to 'the outcome of treatment'. Analytically, 'treatment' is the means of social security, and 'the outcome of treatment' is the end of social security. So, 'treatment' can be equal or unequal, but 'the outcome of treatment' should be in ideal equal. In social security an equal outcome of treatment will be more acceptable as 'equity' than an unequal one. Conventionally, according to many academics such as McClements (52, 97-119), Culyer (1980:153) and Knapp (73-74), the equal outcome of treatment on the benefit side is still entitled 'horizontal equity'. In theory the equal outcome of treatment on the financing side can also be entitled 'horizontal equity' without any doubt, but no writer uses this term yet. Generally, the common indicator of the outcomes of treatment are 'living standard' on the benefit side and 'sacrifice of marginal utility' on the financing side. As 'horizontal equity' can be of both treatment aspect and outcome aspect, in order to distinguish its difference, the author tries to define the horizontal equity in 'treatment' aspect as 'means horizontal equity' and that in 'outcome' aspect as

'outcome horizontal equity' (see Table 2.3).

Table 2.3 The Dimensions of Equity

Side	Treatment		Outcome of Treatment	
	equal	unequal	equal	indicator
Financing	I means horizontal equity	III  vertical equity	V outcome horizontal equity	VII sacrifice of marginal utility
Benefit	II means horizontal equity	IV  vertical equity	VI outcome horizontal equity	VIII customary living standard

Under this new definition, there is a close relationship between vertical equity and outcome horizontal equity. Because in general the final goal of vertical equity is to achieve outcome horizontal equity, so vertical equity is the necessary condition of outcome horizontal equity. Whether the condition of vertical equity is sufficient for its goal or not is dependent on its adequate degree of inequality, neither too much nor too little.

In financing aspect, if the inequality of income and wealth distribution is very significant, the fulfillment of means horizontal equity will be impossible. In practice the principle of vertical equity or outcome horizontal equity is much more feasible than that of means horizontal equity. In fiscal terminology, the principle of vertical equity is transformed into the principle of 'ability to pay'. As Buchanan and Flowers (98-99) have argued, though the principle of vertical equity or 'ability to pay' has been widely accepted in the fiscal systems in many countries, there is a hard question about the differences of tax liabilities, especially in the case of progressive tax. The main supporting theory for the principle of 'ability to pay' is the principle of least sacrifice or minimum aggregate sacrifice. It assumes that the total utility enjoyed by each



individual increases at a diminishing rate as more income is received. That is, the marginal utility of income declines as more income is added. So the collection of a pound in tax from the high-income receivers will reduce their total satisfaction less than a similar collection of a pound from the low-income receivers. Hence, more taxes should be collected from high-income receivers in order to equal their total sacrifice from tax to that of low-income receivers, ie, to equalise the sacrifice of marginal utilities between the rich and the poor.

However, this theory is not solid enough scientifically and analytically to defend the principle of 'ability to pay', because not only the magnitude of individual utility cannot be cardinally measurable, but also utilities cannot be compared interpersonally. Moreover, as Due and Friedlaender (207) and Culyer (1973: 66-68) have argued, there is no significant evidence that the law of diminishing marginal utility applies to income as a whole. As a person's income rises, it may be argued that his desires rise as fast or faster. In other words, as people's tastes do differ, their marginal utilities of money income will differ. So this theory is not very solid. Actually, the principle of 'ability to pay', especially its progressive taxation, is in fact defended on grounds of public consensus or political coalition formation, because only this measure can collect more revenue efficiently. Nevertheless, the principle of means horizontal equity can still be applied to the aspect of financing if the amount or the rate of taxes or contributions can be small enough to let all people have enough abilities to pay. For example, the flat-rate contributions of British National Insurance scheme before 1959 was the well-known case though they [contributions] were applied to only wage-earners.

According to above discussions, a temporary conclusion can be drawn as follows. As the judgement of vertical equity is based on 'inequality' and that of horizontal equity, both means and outcome, is based on 'equality', so, the 'unequal treatments' in progressive tax can win the highest rank in vertical equity (including outcome horizontal equity) and the lowest rank in means horizontal equity; as for the 'equal



treatments' in amount (e.g. flat rate taxes) and in rate (e.g. proportional taxes) in relation to equal citizenship will be able to win the highest rank in means horizontal equity and the lowest rank in vertical equity (including outcome horizontal equity); as for proportional tax, it will be in the middle in both types of equity.

In benefit aspect, both types of horizontal equity and vertical equity are applicable to all types of provision. In theory all flat-rate benefits are based on means horizontal equity principle. Implicitly, the implementation of this principle assumes that the needs of people are equal. But in practice people's needs are different due to the differences of age, sex, health, income, geographical region, et al. So if the distribution of benefits is according to needs, then it will be no different to say that it is based on the principle of vertical equity.

Another principle of distributive justice is the distribution according to Rawlsian maximum, ie, to maximise the welfare of the least well-off person (Culyer, 1980:63). According to this principle, it is socially just to distribute the greatest benefit to the least advantaged. However, Rawls does not propose this principle independently and unconditionally. The principle of positive discrimination in favour of the underprivileged to ensure equality must be consistent with other two concepts or conditions of 1) equality in basic liberty and 2) equality of opportunity for advancement (Culyer, 1980:63; Jones, et al, 13). Otherwise, many undesirable disincentive effects might occur.

As discussed above, if the discussion is concentrated on the treatment or distribution of benefits, no matter based on the standard of 'equality' or 'inequality', in theory social assistance will be able to win the highest rank in vertical equity and the lowest rank in means horizontal equity; universal allowance will win the highest rank in means horizontal equity and the lowest rank in vertical equity; as for social insurance, it will be in the middle in both types of equity. But, if the judgement is based on the final outcome of equivalent living standard, then social assistance will be

able to win the highest rank in outcome horizontal equity due to its high elasticity in deciding the amount of benefit, universal allowance will get the lowest rank in this 'equity', and social insurance will be still in the middle.

## **2.6.2. Adequacy——primary and secondary**

The formal definition of 'adequacy' in the dictionary means the state of being enough and sufficient. In the field of social security, it [adequacy] means financial resources or revenue are sufficient to finance the benefits which are sufficient 1)to reduce or eliminate poverty, 2)to meet needs of the people and/or 3)to maintain income. To be brief, 'adequacy' means both sufficient revenue and sufficient benefit. However, for the third objective, its main idea is to maintain (one's) benefit level in relation to one's previous earnings in order to keep on one's customary living standard. Generally, apart from very few short-term benefits, it is very difficult with long-term benefits to maintain their level as high as one's previous earned income. Instead they are only a percentage such as 50% or 60% of one's earnings. So, it is a vital problem to argue on what ground this percentage or its equivalent amount can be decided. Its reasonable ground is to prevent poverty (absolute or relative) or to meet needs (primary or secondary). For example, a pension maintaining 50% of income might merely be enough for low paid to avoid absolute poverty, but could be high enough for well paid to meet secondary needs. If so, the discussion of this third objective can be included in the first two objectives. Especially, as we will discuss later, the objective of 'maintaining income' can be fully included within the objectives of 'reducing relative deprivation' and 'meeting secondary needs'. Therefore, if 'poverty' and 'needs' can be well-defined, then the 'adequacy' of benefit can be decided. And after the adequacy of benefit is decided, then the 'adequacy' of financing can also be decided. So the discussion of this criterion, adequacy, will be based on mainly 'poverty' and 'needs'.

Generally, 'poverty' is the state of lacking of the 'resources' to maintain an absolute or relative standard of living. These 'resources' are classified by Townsend

(88) into five categories: cash income, capital assets, value of employment benefits in kind, value of public social services in kind and private income in kind. The way to reduce or eliminate poverty is to provide or transfer more 'resources' to the poor. However, to transfer 'resources' to the poor is not only a way to reduce or eliminate 'poverty', but also a way to meet 'needs' of the people. Though the concept of 'needs' is broader than 'poverty', both of them can be absolute or relative. Theoretically and practically, 'poverty' can also be defined by 'need' as the state of *failing to meet the absolute or minimum level of 'needs' or failing to meet relative deprivation 'need'*. So there is a close relationship between 'poverty' and 'needs'.

Historically, 'poverty' was first defined scientifically by Seebohm Rowntree in 1899 in his classic study of poverty in York. His 'primary poverty' or 'absolute poverty' was defined as an income "insufficient to obtain the minimum necessities for the maintenance of merely physical efficiency" (Townsend, 33; Mack and Lansley, 17). This absolute minimum standard of poverty was physiologically decided by minimum cost for purchasing the necessary food and in turn the items and the amount of food were further decided by the basic standard of nutritional adequacy which was derived from dietary science.

Though this absolute definition of poverty is theoretically possible, there are many difficulties in practical operation. Firstly, because the minimum nutritional requirement was decided by the experts, and the dietary customs were socially and culturally decided by the people, so there was a great gap between them, not to mention the difficulties in calculating minimum costs to purchase them. Secondly, in market economy the prices of food are mainly decided by the equilibrium of demand and supply. They change not only over time but also between different areas. No price of food is fixed universally and permanently. So the minimum income to meet basic physical need is questionable. For these reasons, Mack and Lansley (28) argued that even Rowntree's definition of absolute 'primary poverty' was in fact also relative.

As the conception of absolute poverty is in practice inappropriate, a new relative standard of 'deprivation' or even 'inequality' is applied. That is to say, the definition of poverty is developed from the concept of 'subsistence' (including 'starvation') to that of 'deprivation', and finally to 'inequality'. As both 'deprivation' and 'inequality' are relative, they are derived from the comparison of the lowest quintile or decile to the remaining parts of a society. The difference is that in 'deprivation' the items for comparison are mainly those in relation to the community's style of living which is customary to the majority of the people. When one's income is not sufficient to have such customary life as a normal member of the community, he is deprived. This is also Townsend's definition of poverty (31). He has established a table of deprivation index of 12 items which is derived from his questionnaire of 60 indicators of the 'style of life' (see Table A2.2 in Appendix). Later, Mack and Lansley (ch 3) also established another different 'deprivation index' table of 35 items (see Table A2.3 in Appendix). When people lack of the items of high degree of necessity, they are seriously deprived.

As Mack and Lansley (43) have mentioned, although the relative definition of poverty is more advantageous than the absolute one, however, the socially and culturally decided 'living style' is subjective and changeable. Many questions follow. First, the measurement and treatment of poverty require not only value judgements but also a factual knowledge of the society. A person may have in mind a certain standard of living, but he might wrongly estimate the income needed due to lack of experience of living at that standard. Second, as price level is changeable over time and between different areas and even districts, a fixed income level, even in a very short term, cannot certainly fulfil a common standard of living. Even Rowntree himself also realised this price problem, so he used three different methodologies to estimate the minimum income to relieve poverty: 1) he used the expert approach to deal with food; 2) the public opinion approach to deal with clothes; and 3) the actual expenditure approach to deal with housing (Mack and Lansley, 46).

In summary, apart from the 'inequality' concept of poverty, there are at least two levels of poverty in social security or social policy: absolute 'subsistence' and relative 'deprivation'. As poverty is a relative concept, the treatment of poverty can also be based on different policies. Comparatively, absolute poverty could be eliminated because it has a physiologically fixed poverty line. But relative poverty would be reduced only and could never be eliminated because by definition there will be one tenth or one fifth of low income people being poor unless the ratio of the highest fifth to the lowest fifth or the highest tenth to the lowest tenth is very small. The question of relative poverty is quite similar to that of inequality. So the adequacy of the resources to eliminate or reduce poverty can also be classified into two types: *primary adequacy* in relation to absolute poverty and *secondary adequacy* in relation to relative poverty.

As discussed above, 'poverty' is demonstrated as a very complicated concept, however, 'needs' is not a simple one either. As mentioned in section 4, the coverage or the quality of 'needs' of the elderly is quite different from the younger group of people. In order to construct 'needs' as the basis of the criterion of 'adequacy', the author tries to extend the discussion of 'needs' from quality to quantity in this section. Basically, 'needs' itself can be studied from many aspects, But many studies mainly emphasise one aspect of 'needs'. For example, Marx's and Marxist theory of needs put emphasis only on the historical nature of needs (Roos, 72). In their theory the only original independent need is the 'need' for survival, which implies the fulfilment of such needs as eating, drinking, shelter, etc. In order to fulfill this need, men have to produce material goods, but when men enter into material production, the production itself begins not only to affect and alter their needs, but also to create new needs. This is an inevitable contradiction within a capitalist society: on one hand, it creates higher-level needs, but on the other hand, it cannot satisfy them (Taylor-Gooby and Dale, 222). This Marxist analysis reveals the fact that needs are hierarchical and developmental.

However, it is not easy to establish a hierarchy of needs. In spite of many efforts, we have no perfect hierarchy yet. According to Maslow's study, his well-known hierarchy of human needs is classified as five levels as follows: 1)physiological needs, 2)safety needs, 3)love and attention, 4)esteem needs and 5)needs for self-actualisation (Lindgren, et al, 47). According to Roos' comments (69), only the first three needs could be autonomous and independent of society, and the last two needs are clearly inseparable from society and are socially created. So Roos rejects the last two needs as the real basis of welfare theory. However, Maslow's analysis is mainly based on the physiological and psychological levels of individuals. Many social and cultural needs cannot be included. So a more valid classification is necessary.

As the hierarchy of needs is a useful concept, in order to avoid Maslow's restrictions, a more general terminology for the hierarchy will be helpful. In his lecture on *Tripeoplism* in 1924, Dr. Sun Yat-sen classified the living standard of the people by the example of clothing and food into three levels (Hsu, 470): 1)necessity level ---- people must have food to eat and clothing to wear, or they will suffer physically; 2)comfort level ---- the pursuit of people for delicious food and fit clothing to make life comfortable and pleasant; and 3)luxury level ---- people seek for rare and expensive food and clothing for beauty and refinement. He said the responsibility of government was to help people to satisfy their needs at the first level in the first stage. As Mencher has described, "luxuries become comforts, comforts become necessities" (McClements, 53), so 'necessity-comfort-luxury' is a hierarchy of consecutive levels. the 'needs' in relation to 'necessity' can be defined as *primary needs*, the 'needs' in relation to 'comfort' as 'secondary needs', and the 'needs' in relation to 'luxury' as 'tertiary needs'. Or, more briefly, the 'needs' in relation to 'comfort' and 'luxury' can be defined as 'secondary needs'.

Generally, the items of food, clothing and shelter are certainly those of 'necessities'. But in many cases, these items themselves can be demonstrated as the items of 'comforts' or even 'luxuries' just depending on their quality and price. In order





to clarify this ambiguity, a theoretical interpretation would be helpful. For example, we may prescribe that, only the items such as food, clothing and housing which are aimed to satisfy physiological needs and to maintain the biological processes of the organism as 'necessities' or 'primary needs' or 'basic needs'. As for the items, even food and clothing, if their function or purpose is to satisfy higher levels of psychological, social and cultural needs and to enable the beneficiaries to belong and to participate as a full member of the community, then they are defined as 'comforts' or 'luxuries', or 'secondary needs'. Finally, referring to the discussion of 'poverty', for the reason of theoretical consistency, it is better to classify 'needs' into only two categories: *primary needs* and *secondary needs*. If so, the benefits which can satisfy 'primary needs' may be named as *primary adequacy*, and those can satisfy 'secondary needs' as *secondary adequacy*.

In the field of social security, because the 'adequacy' of financing is dependent on whether its methods can raise sufficient revenue to finance its benefits, and in general tax system is separate from benefit system, so it is not necessary to further classify the criterion of adequacy in financing aspect. In financing aspect, theoretically, because its rank is decided by the efficiency or financing ability of different methods to collect sufficient revenue to finance the scheme, so, if none of them can collect sufficient revenue, then all of them are not adequate. However, the method which can collect more revenue will have more chance to win the better rank. In contributions, practically, because earnings-related methods can collect more revenue than the flat-rate ones, so the rank of the former is better than the latter. In taxation, generally, because progressive tax can collect more revenue than proportional tax, and proportional tax can collect more revenue than regressive one, so the rank of progressive tax is better than that of proportional tax, and the rank of proportional tax is better than that of regressive one.

On the benefit side the rank of 'adequacy' is not certain and decisive. That is, the benefit of a provision could be at any level, either the highest one or the lowest one.



Some tax-financed benefits such as those of social assistance or universal allowance could be very low owing to ideological, historical or even political reasons. Even so, the remaining social insurance is not certainly better. In theory the benefits of social insurance could be better because its benefits are actuarially calculated according to contributions. But in practice, just like the rates of tax, the rates of contributions are generally politically decided, so its benefit level will be influenced by the political decision. As the benefit level of all three provisions are directly or indirectly politically decided, there is no definite conclusion which benefit will be higher than the other. That is, there is no definite rank on the side of benefit.

Furthermore, in some countries such as Britain the provision of social assistance is always designed as a supplementary benefit of other main provisions such as social insurance, so it will be meaningless to compare the level of benefits between different provisions. Only in a pure theoretical analysis the maximum benefit of social assistance should be less than social insurance and universal allowance if we want to encourage people to work harder and longer and to use social assistance as the last resort of social security.

As the definition of 'poverty' or 'needs' has a close relation with the level of 'adequacy', the criterion of adequacy could be achieved if the operational definition of 'poverty' or 'needs' is given. Although our long run goal is to achieve both 'primary adequacy' and 'secondary adequacy' however, the first priority should be put on 'primary adequacy' because it is the inseparable basis for the pursuit of 'secondary adequacy'.

### **2.6.3. Economic Efficiency**

In economic affairs, 'efficiency' formally means the following two aspects: firstly and positively, it means an increase in productivity, ie, more outputs (eg, goods or services) can be produced under the same or even less inputs (eg, costs, resources or labour); secondly and negatively, it means a decrease of waste, ie, the same amount

or quality of outputs can be produced with less inputs. Because there is also the criterion of 'administrative efficiency', so 'economic efficiency' in this thesis will not include the efficiency of the administration of income maintenance or social security. As social security is not purely a kind of productive activity, the criterion of 'economic efficiency' mainly concerns the disincentive effects of the distribution of both taxes (including contributions) and benefits in the system. Of course, more emphasis will be put on the side of financing because all adequate benefits or resources must depend on a good base of taxation or contributions.

In the field of social security, the special definition for 'economic efficiency' is that both its adequate revenue (either taxes or contributions) and its adequate benefits will leave sufficient incentive for the current and future beneficiaries to spur them on to further efforts, at least not to encourage them to be dependent psychologically and morally. To be brief, as Hemming (15-16) has stressed, it is to minimise the disincentive effects of social security system. However, this is still a very abstract concept, we need to give it a more concrete 'operational definition'. According to H. Parker (1984:54), her operational definition of 'economic efficiency' in the field of social security are the 'marginal tax rates' in the financing side and the 'replacement ratios' in the benefit side. It is true that the disincentive effect will be very significant if the marginal tax rates are very high, eg, if they are higher than 80%. Apart from universal allowance, a high rate of 'replacement ratio' or 'replacement rate', say over 0.9 or even only over 0.8, will also have the same disincentive effects in benefit side, especially for the people who engage in unpleasant works.

Furthermore, in benefit side the application of 'withdrawal rate', for example the means testing in social assistance and earning rule in social insurance, will also greatly discourage the people (including the elderly) to work or to save. Obviously, it will greatly reduce the 'economic efficiency' of social security. Nevertheless, apart from the earning rule for retirement such as in Britain, in social insurance the effect of 'withdrawal rate' of contingency-tested benefits is neutral because all beneficiaries are

in theory disabled to work owing to sickness, old age or other contingencies. Even contingencies such as unemployment and sickness which have the hazard to be abused can be effectively avoided by strict preventive measure such as a longer waiting period, stricter registration and medical certificate. But for universal allowance benefits recipients, there will be no such disincentive because 'withdrawal rate' is not applied to them.

In financing aspect, the possible taxation methods are mainly regressive tax (e.g. poll tax), proportional tax and progressive tax. According to 'ability-to-pay', both in average rate and in marginal rate, comparatively, regressive tax will be the one which can collect the smallest amount of tax, proportional tax can collect more, and progressive tax will be the most one. So, to analyze the effects of these three methods of taxation is in fact no different from analyzing the effects of tax-increase or tax-decrease. As the author has mentioned in the previous section, from the point of view of individuals, in case there is an increase in the average rate of taxes there could be at least three different reactions: 1)work the same with a change in the ratio of consumption and saving; 2)work more due to the income effect; 3)work less due to the substitution effect. So, before judging the effects of different taxation methods, its pre-condition, either income effect or substitution effect, must be made clear. If the pre-condition of income effect occurs, then proportional tax will have a stronger effect than regressive tax to force people to work more, and progressive tax will have stronger effect than proportional tax to force people to work more. But if the pre-condition of substitution effect occurs, then the effects will be opposite: proportional tax will have a stronger effect to induce people to work less than regressive tax and to induce people to work more than progressive tax.

From the point of marginal tax rate, in theory the disincentive effects will be high if the marginal rate of tax is high, otherwise, it will be low. Viewing the marginal rate of different type of tax, the possible marginal rate of regressive tax could be very low. For example, it will be zero in flat-rate poll tax for the income over tax level. In

proportional tax the marginal rate will be the same as the rate of proportional tax, ie, it is constant. But in progressive tax the marginal rate will be increasing. As progressive tax could have the highest marginal rate of tax, it would have the strongest disincentive and win only lowest rank in the criterion of 'economic efficiency'; regressive might have the lowest marginal rate of tax, so it would have the lowest disincentive to work and win the highest rank in the criterion of 'economic efficiency'; as for proportional tax, its rank will be in the middle.

In the aspect of benefit, its two indicators, replacement rate and withdrawal rate, are applied to only social assistance and social insurance; they have nothing to do with universal allowance. As both replacement rate and withdrawal rate will more or less have some disincentive effects in social assistance and social insurance, so disincentive-free universal allowance will be able to win the highest rank in the criterion of 'economic efficiency' under these two indicators. Under withdrawal rate, in theory this rule is applied to all cases in social assistance, but it is only occasionally applied to the contingency of retirement in some countries such as Britain in social insurance, so the rank of social insurance should be higher than social assistance. But under the rule of replacement rate, though a high rate will certainly have a strong disincentive effect, unfortunately, because there is no steady level of benefits in both social assistance and social insurance, moreover, there is no general valid trend either, so their rank is uncertain.

#### **2.6.4. Administrative Efficiency**

This criterion indicates all main aspects of administration such as 'administrative economy', 'administrative simplicity', 'administrative effectiveness', and 'administrative costs' as long as they are related to the efficiency of administration. The administration which can meet this criterion will be the one whose efficiency is high and cost is low. It will not only be easy for the people to access and understand but also easy for the administrators to run and administer. So the question here is how an administration can be made more efficient and more economical. As 'administrative

efficiency' is basically an economic concept, so the following two principles of economic management can be applied to answer this question.

The first principle is 'the minimum scale of economy' or 'economies of scale', ie, the scale or the size of an enterprise must be reasonably large in order to reach its optimal or most economic state. It deals with the matter of quantity. In economic production, only mass production can effectively reduce the cost of units and the price of goods, provided a mass market also exists. In the field of social security, the way to increase its 'administrative economy' or 'administrative efficiency' is to extend its coverage to include the whole population of a society. At least, the larger the better. Only in a system with large numbers of participants can the probability of the occurrence of certain contingencies be stable and assessed, then its costs can be estimated and its management can be scientific. The possible limitation caused is that the cost of collection of taxes and contributions will be greatly increased if the number of self-employed is very large such as in Taiwan.

The second principle is 'the division of labour'. It deals with the matter of quality. In economic production, the material production of certain goods is carried out by an assembly line in which the work is divided into numbers of simple parts and undertaken by different workers, so its efficiency can be greatly improved. In the field of social security, although the division of labour is not so delicate as material production, the provisions of benefit may be divided into several departments or even several schemes, at least the benefits can be divided into two types of benefit: benefit in cash and benefit in kind. Different benefits or services provided by separate schemes may be a way to make the administration easy and efficient.

Furthermore, the complexity of the administration of different social security provisions also differs greatly. For example, the administration of universal allowance is much simpler than that of social insurance, and the administration of social insurance is much simpler than that of social assistance, so the administration of

social security will be simpler and easier if we apply more schemes of universal allowance than those of social insurance and social assistance.

In financing aspect, the rank of 'administrative efficiency' is decided by the costs of tax and contribution collection. The less the better. Generally, flat-rate taxes and contributions are much easier to collect than the earnings-related, proportional and progressive ones. Flat-rate taxes or contributions can be collected at any time in the fiscal year, so regressive or poll tax will win the highest rank, progressive ones will win the lowest and proportional ones will be in the middle. As for contributions, the rank of flat-rate ones will be better than earnings-related ones. Of course, people may argue that, because a poll tax is collected from everyone and earnings-related tax (including contributions) only from wage-earners, so it is not necessarily simpler or cheaper to have a poll tax, due to the huge number of tax-payers. This argument could be particularly true if the total dependency ratio is very high. So more evidence is needed to justify this argument.

In benefit aspect, obviously, universal allowance has the simplest procedure or formality to provide benefits, so it can win the first rank. On the contrary, the administration of social assistance is the most complicated one, so its rank is the lowest. As for social insurance, it will be in the middle.

Table 2.4.1 The Function Rank of The Criteria: Financing

Criterion	Taxes			Contributions	
	A	B	C	F-R	E-R
Vertical Equity	3	2	1	2	1
Means Horizontal Equity	1	2	3	1	2
Outcome Horizontal Equity	3	2	1	2	1
Adequacy	3	2	1	2	1
Economic Efficiency	1	2	3	1	2
Administrative Efficiency	1	2	3	1	2

Note: A = flat rate or regressive (e.g. poll tax)

B = proportional

C = progressive

F-R = flat-rate

E-R = earnings-related

\* The rank of '1' is better than '2'.

The rank of '2' is better than '3'.



Table 2.4.2 The Function Rank of The Criteria: Benefits

Criterion	SA	SI	(F-R	E-R)	UA	(SUB	ALL)
Vertical Equity	1	2	( 2	1 )	3	( 1	2 )
Means Horizontal Equity	3	2	( 1	2 )	1	( 2	1 )
Outcome Horizontal Equity	1	2	( 2	1 )	3	( 1	2 )
Adequacy	-	-	( -	- )	-	( -	- )
Economic Efficiency	3	2	( 2	1 )	1	( 2	1 )
Administrative Efficiency	3	2	( 1	2 )	1	( 2	1 )

Note: SA = Social Assistance

SI = Social Insurance

UA = Universal Allowance

F-R = flat-rate

E-R = earnings-related

SUB = sub-universal allowance

ALL = all-universal allowance

\* The rank of '1' is better than '2'.

The rank of '2' is better than '3'.

## 2.7. Conclusion

The elderly are the people of old age. In turn old age is generally defined as 65 years in gerontology or retirement age in the field of social security. So it might not be consistent with the 'oldness' of people in biological age, psychological age or social age. In the field of social security, both disengagement theory and activity theory have their points in retirement age. But the feasibility of disengagement theory seems to be higher than activity theory. The evidence also shows that most countries with social security provisions have fixed retirement ages.

As both gerontology and social security tend to fix a given age as old age, so the state of old age can be measurable. The popular measurements are (1)number, (2)percentage, (3)old dependency ratio, and (4)ageing index. Among them, percentage is the most common one. As the number of population cannot be increased unlimitedly, it will approach a ZPG state in the future. Moreover, because the average life expectancy is also quite stable, so the percentage of the elderly is estimable under ZPG.

Although the elderly have common needs as all other people, they do have their



own special needs which are really different from younger age groups. Generally, on one hand, because they tend to have more additional expenditure due to special needs and, on the other hand, because they tend to earn less due to retirement or the loss of earning ability, so there must be some special provisions to tackle their special problems.

In most cases, the elderly will be able to meet their needs as long as they have sufficient income. So income maintenance becomes the vital issue for the elderly. Briefly, there are five sources of income for the elderly: (1)employment, (2)savings, (3)investment, (4)family, and (5)social security. Unfortunately, all of them by nature have their limitations. The status of employers is only confined to very small number of old people. The majority of employees and self-employed are forced to stop their employment owing to retirement or disability. Savings and investment are not possible for the elderly of low income or with a large family. As for family, it is not a reliable support for the elderly if their children are also of low income, not to mention those who are single or married but without children. Even if there is social security provision, it is restricted by political and economic conditions and sometimes might have the side effect of alienation.

Social security can be classified into three main patterns: social assistance, social insurance and universal allowance. Briefly, the main merit of social assistance is it is relatively cheap and effectively targeted, yet its main weaknesses are the effect of stigmatising and disincentive, and administrative expense. The merits of social insurance is that it can avoid the limits of social assistance because its entitlement to benefit is an earned right. Unfortunately its limit is its exclusion in both contingencies and coverage. Lastly, universal allowance can overcome all disadvantages of social assistance and social insurance, but its own limit is its benefit expenditure will be very high if its benefit level is as high as those of social assistance or social insurance. However, when a social security provision is used for the elderly, the common condition to provide them a benefit is that they must qualify for the requirement of

age or retirement. We find that not only the retirement ages but also the provisions adopted by each country differ greatly due to different social and economic conditions.

As the payments of social security is a kind of income transfer or income redistribution, it will certainly have some positive or negative effects on economic activities. Its paths of influence has been illustrated in detail from every possibilities. This framework can be used as a guide for further empirical studies.

Finally, the author tries to apply Parker's four criteria, ie, equity, adequacy, economic efficiency and simplicity (renamed as 'administrative efficiency'), as the basic standards to assess the option and planning of income maintenance in Taiwan. Among them, the criterion of 'equity' is the most complicated one. Their related characteristics and the ranks of function in income maintenance and social security are explained in the text. They will be fully referred to in chapter 9.

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## CHAPTER 3

### THE SOCIAL SECURITY IN BRITAIN

#### 3.1. Introduction

As described in the previous chapter, there are many ways to maintain the income of the elderly in order to meet their needs or to keep them from poverty. Although each source of income has its shortcomings and limitations, comparatively, social security is the most reliable one. Therefore, after the theoretical discussion in the previous chapter, this form of provision will be pursued more thoroughly by an empirical study of British social security in this chapter.

Compared to its own very early stage or other less developed countries, the level of British social security benefits nowadays is really quite generous. Correspondingly, expressed as a percentage either of GNP (or GDP) or of government expenditure, its expenditure social security is also very high. As the expenditure on social security is decided by the number of the beneficiaries and the level of the benefits though they are in turn decided by other more specified elements, so it seems to be reasonable to judge the achievement of social security by these two main elements. Of course, the benefits of social security can be divided into numbers of items. But, in this chapter, the analysis will be based on the framework provided in previous chapter.

From many aspects, economic, political, social or cultural, Britain and Taiwan are two quite different societies, so it is not practical to expect Taiwan to transplant British provision of social security either at present or in the future. However, as Britain is an old advanced welfare state, many lessons, either positive or negative, might be learned from its experiences in the implementation of different types or patterns of social security. As the aim of this thesis is to raise some options for change in Taiwan, such experiences, especially the Beveridge Plan, might be of great interest. For any reform, a general and comprehensive review is necessary for its policy consideration.

The review of British experiences will be divided into three stages: before Beveridge, the Beveridge Plan and after Beveridge. And finally comes an introduction to the actual provisions. As for the discussion of provision, the purpose is to understand British social security from the aspect of its administration.

In the stage of 'after Beveridge', a special emphasis will be put on the phenomenon of 'pension politics' or 'political see-saw' which has lasted for over 30 years in British social security. This issue strongly inspires the author to search for some ways to avoid such uncertainty. In order to achieve this objective, the author also tries to make a general review of the series of policy debates between two main parties in British social security provision. Of course, because of the purpose of this thesis, most emphases will be put on old age provision.

### **3.2. Before Beveridge**

The origin of the British social security system lies in the Poor Law, going back at least to the 14th century. Some set the origin of the British Poor Law in the Act of 1388, the 12th of Richard II. This Law, the Act of 1388, was not only to try to fix wages but also to prevent vagabondage which resulted from the decay of the feudal system in the 13th century. Afterwards, there followed several similar Acts to deal with the same problem with different measures. For example, in the 1576 Poor Relief Act, the concept of 'setting the poor to work' was applied. The able-bodied had to work in return for the relief. However, these measures were restricted to private, religious, or charitable levels only. There was no public relief for the poor until the Poor Law Act of 1601, the 43rd of Elizabeth (Fraser, 31-33; Clarke, 7-20).

The Act of 1601 was the most famous one in the British Poor Law history. It recognised that poverty was not totally the result of individual error, either idleness or improvidence. This Act obliged the justices of peace to appoint officials, ie, overseers, in each parish to give relief and hospitals to the poor and empowered them to levy a local tax on property for this purpose. The poor were identified as three main groups

to be dealt with by three different sorts of treatment. Firstly, the impotent poor such as the aged, the chronic sick, the blind and the lunatic were to be accommodated in 'poor-houses' or 'almshouses'. Secondly, the able-bodied were to be set to work on hemp or some other appropriate material in the 'workhouse' (really a workhouse without the meaning of punishment and disgrace). And thirdly, the able-bodied who were persistent idlers and refused to work were to be punished in a 'house of correction' (Fraser, 33). [However, 'house of correction' was still not the 'workhouse' with the implication of humiliation and disgrace. The 'workhouse' concept, established in 1697, was originally called 'pauper manufactory' or 'corporation of the poor', and became the workhouse test only after the Act of 1723 (Clarke, 22; Fraser, 35).] This Act was extremely harsh in order to prevent wandering beggars and vagrants. Though the Act of 1601 provided the basic legislation for well over 200 years, throughout, the principle underlining the Act was local relief, locally administered for local people.

The Act was legislating for the whole country and was centrally regulated after the amendment of 1834 by the new Poor Law Commission(ers). Better care was provided for children (orphans), but the principle of 'less eligibility' was also applied. This principle implied that the applicant's 'situation on the whole shall not be made really or apparently as eligible as the situation of the independent labourer of the lowest class' in order to discourage the able-bodied to rely on the relief (Gilbert, 14). Moreover, under this principle, pauperism or poverty meant more than misfortune, it also implied a moral failing or disgrace (Gilbert, 21; Hennock, 1968a). Quite explicitly, this generally-held attitude towards the poor was strongly influenced by the writings of classic liberals such as Malthus and Ricardo (Gilbert, 161). In theory the Poor Law would provide the means of avoiding extreme destitution in the workhouse. But in practice the overwhelming majority of paupers (about five out of six) were relieved outside the workhouse (Fraser, 51-52). Furthermore, two other sources of help were available for the needy.

Firstly, voluntary help and charity were provided to those felt to be sufficiently deserving by voluntary organizations such as the Charity Organization Society. This Society coordinated a whole host of charities, but for the needy to ask for help was seen as individual failure, so their help was degrading and not popular (DHSS, 1985a:III59; Smith, 17-18). Secondly, collective self-help was provided by friendly societies, trade unions and co-operatives. Among them friendly societies were the most important.

Typically friendly societies which were founded in the second and the third quarters of the nineteenth century were a manifestation of the Victorian ethic of providence and self-help. And the membership of a worker in a friendly society was also a symbol of his independence and responsibility. In return for a contribution of between 4d and 8d a week, the society gave sick pay, ordinarily around 10s a week, medical care, usually provided by a physician under contract to the society, and a death benefit of L10 or L15, enough for a 'respectable' funeral. By the end of nineteenth century there were nearly 24,000 registered societies and branches and about from four and a quarter to four and a half million members, which equalled roughly half the adult male population of Great Britain. Because of the huge number of friendly society members, it was said that they were the backbone of the English nation (Gilbert, 165-167).

Nevertheless, the provisions of friendly societies were not designed for old age because very few people could live into old age when friendly societies were created. But by the last two decades of nineteenth century, because of medical and sanitary science and improved standard of living, an increasing number of their members were able to live into old age. Most of them could not work, but did not die. So the contingency of old age was conventionally treated as sickness by friendly societies. All old age pay was paid in the form of 'sick pay'. The reserve funds of most societies were exhausted by this measure, and more than a half of societies admitted that they were facing serious financial difficulties around the turn of twentieth century



(Gilbert, 170).

Because of moral objections and the fear of competition for the limited savings of the workers, both the Charity Organisation Society and friendly societies, especially the latter, strongly opposed any kind of compulsory contributory schemes, either for sickness or old age. So the first such scheme proposed by the Reverend Canon William L. Blackley in 1878 was quietly put to death even though later he gave up advocating sick pay and proposed only old age pension which was not provided by friendly society(Gilbert, 161-164). In order to avoid the same opposition, Charles Booth proposed his universal non-contributory, tax-supported pension in 1891, but his proposal failed to be accepted owing to its ruinous expensiveness (Gilbert, 182). Finally the first British Old Age Pension was established in the form of social assistance in 1908. Because this new pension scheme was non-contributory, it could avoid objections from friendly societies; and because it was non-universal, it was not too expensive to provide.

The 1908 Act was the first real departure from the Poor Law to help elderly people though it was criticised that its pension was too low, its pensionable age was too high and its means test was too severe (Kaim-Caudle, 1973:166-67). The Act came into effect from 1 January 1909. It was a pension of 5 shillings (or 25P) per week to be paid to those who were over 70 years of age and had an income less than 21 pounds a year; a reduced pension was paid to those with income between L21 and L31. Apart from means test, tests of character, residence and work were also applied (Kaim-Caudle, 1973:166; Smith, 21). The applicant for a pension was required to prove that he had not been in prison within ten years (later reduced to two years in 1911). He was also required to be a British subject and to be a resident of the UK for twenty years. Apart from not receiving poor relief since January 1, 1908, he had to be 'habitually' employed in the trade of his choice. Contributions to a friendly society were accepted as an adequate fulfilment of this industry (or work) test (Gilbert, 222,225)

Two years later, the first British social insurance scheme was introduced in 1911 which consisted of two parts: unemployment insurance and health insurance. The former was administered by the Board of Trade until 1917 and then by the Ministry of Labour; and the latter was administered by registered Friendly Societies. The health insurance covered the following areas of needs (Smith, 21):

- a) the cost of medical treatment of the insured only, not the family, by general practitioners;
- b) sickness benefits---10 shillings per week for 26 weeks;
- c) disability benefits;
- d) maternity benefit;
- e) right to treatment in a sanatorium.

Unemployment insurance assumed that a man would pay contribution whilst employed and draw out benefit when unemployed. This scheme was not only quite limited in its coverage, it covered only 2.3 million skilled workers in 7 industries: building, construction, shipbuilding, mechanical engineering, ironfounding, vehicle construction and sawmilling, but also very limited in its benefit, its level was only 7s per week up to a maximum of 15 weeks (Fraser, 172-3).

In 1925 there was a major change in the character of pension provisions. The Widows', Orphans' and Old Age Contributory Pension Act of that year was formally extended to cover widows and orphans and granted a contributory old age pension of 50p a week to all people who were covered by health insurance, including wives, at 65 without means test. The cost of this contributory pension scheme was shared equally between employers and employees. Moreover, when contributory pensioners reached 70, they were entitled to a non-contributory pension without test. By the end of the 1930s there were more than two thirds of all persons over 65 and about four fifths of all persons over 70 receiving state pensions. Although the pension rate was still 50p a week, its purchasing power was 40% greater than that in 1919 because of the fall of prices (Kaim-Caudle, 1973:167).

In 1934 the Unemployment Assistance Act was introduced to tackle the mass and

long-term unemployment problem caused by the world recession in the interwar years, because not only had most unemployed people exhausted their legal insurance benefits but the unemployment insurance had also exhausted its fund after many changes in arrangement. The pensionable age of women for contributory pensions was reduced from 65 to 60 in 1940 (DCE, 1954:2,48).

### 3.3. Beveridge Plan

Due to the piecemeal growth and reform in the field of social security, in 1941 no less than seven government departments were directly or indirectly concerned with administering cash benefits for different kinds of needs. For example, unemployment insurance was supervised by the Ministry of Labour, national health insurance by the Ministry of Health and the Department of Health for Scotland; non-contributory old-age pensions were administered by the Customs and Excise, contributory old-age pensions by the Ministry of Health and supplementary pensions by the Unemployment Assistance Board. In addition workmen's compensation was supervised by the Home Office; war victims and their dependants were relieved by the Ministry of Pensions, while the civilian disabled, widows and orphans were insured by the Ministry of Health. Furthermore, there was a nation-wide network of local authority committees which paid means-tested public assistance to persons in need (Harris, 378). Therefore, not only their benefits were financed in a number of different ways, but also their benefit level and coverage differed greatly. Such a variety of systems not only caused much overlapping and duplication of services, but failed to make provision for many people in need. These facts demonstrated that a general reform to integrate these separate schemes into one unified scheme was urgent and necessary.

There was a 'great leap forward' in British social security after the presentation of the Beveridge Report, *Social Insurance and Allied Services*, which was published on 1st December 1942. It was the product of dissatisfaction with the results of the past arrangements. The main problem that Beveridge wanted to attack was 'want' or 'poverty'. Based on several surveys, the facts showed that between three quarters and

five sixths of all want was due to the interruption or loss of earning power caused by unemployment, sickness, old age and death; the remainder was due to failure to relate income or earning to the size of family (7). Beveridge envisaged that a comprehensive social insurance scheme which was based on the six principles could solve most of the problems. The principles were 1)flat rate of subsistence benefit, 2)flat rate of contribution, 3)unification of administrative responsibility, 4)adequacy of benefit, 5)comprehensiveness and 6)classification (121-22) to cover all the main contingencies such as unemployment, sickness and old age that would cause the interruption or loss of earnings.

However, due to the great difference in the length of unemployment, the size of family and the degree of being sick or injured, it would be beyond the ability of social insurance to tackle the extreme cases of these contingencies. Therefore, the approach of Beveridge was based on the following three assumptions (120). Firstly, there should be universal child allowances whether the wage-earner was in or out of work in order to eliminate family poverty due to large families. Secondly, there should be a high level of employment, or at best full employment, maintained by government policy; mass and long-term unemployment ought to be avoided. Thirdly, there should be comprehensive health and rehabilitation services in order to avoid heavy medical expenditure and maintain a healthier population. Only after all these three assumptions were really satisfied, could Beveridge's attempt to rely on social insurance be realised.

Apart from the main provision of social insurance that would meet the basic need by flat rate of benefits at subsistence level, Beveridge also set a second tier of the safety net, social assistance which was a national scheme taking over from local assistance, to meet the special needs of the minority of people and those who were unable to qualify for insurance benefits. As for the personal additional needs, they should be met by voluntary insurance and other personal provisions. These three provisions, social insurance, social assistance and voluntary insurance, were the three

methods of social security in Beveridge's plan (120). Comparatively, Beveridge expected social insurance to deal with the majority of people and social assistance to deal with the remaining minority. Among the insured, the better-off could make more provisions through voluntary insurance.

Under such an arrangement of logical consistency, the Plan should have been able to tackle all problems of poverty. But after implementation, it was only partly successful. What was its weakness? Although it involves hindsight to review the basic policy of the Beveridge Plan nowadays, some new lessons could still be drawn from the discussion.

At first, we want to discuss the question, 'Why was the Beveridge Plan constructed on the basis of social insurance?' As mentioned in previous chapter, there are three methods, ie, social insurance, social assistance and universal allowance, to provide benefits in social security. Especially, as the Plan was to provide flat rate benefits to all targeted people, based on the criterion of 'administrative efficiency', universal allowance could be a much more efficient way to do so. The reason Beveridge did not take this method might be explained by the same reason that he rejected pay-as-you-go system. He tended to treat non-contributory benefits as 'Santa Claus State' (Harris, 416). As for the reason why he also objected social assistance as the main provision of social security, that could go back to his days on the *Morning Post* and his youthful denunciation of means tests, behavioural tests, and all forms of relief that stigmatised the recipient and discouraged personal savings (Harris, 417). Most of his committee also agreed with him for the same reason (Shragge, 46). Moreover, from the point of view of the whole society, Britain was a country with a long tradition of 'classic liberalism' (or 'laissez-faire'). The virtues of self-reliance, individual's freedom, competitive free enterprise and minimal government intervention are long upheld by Adam Smith, Thomas Malthus, David Ricardo, John Stuart Mill and Herbert Spencer (Ozawa, 2-4; Parker, J., 4-10). For classic liberals, their favourite provision would be social assistance. On the other extreme, there were radical

marxists and socialists to pursue for an all-out egalitarian society by means of revolutionary class struggle to overthrow all private ownership systems.

Facing these two extremes, there developed the 'new liberalism' advocated by Henry George, A.C. Pigou, R.H. Tawney and John Maynard Keynes. On one hand, they highlighted the importance of interdependence among individuals, cooperation in human endeavour, egalitarianism in allocation of resources, and willingness to accept a certain amount of governmental intervention for redistributing resources from one segment of society to another which were essential to the ideal of socialists (8-10) and, on the other hand, they did not totally object to the virtues advocated by classic liberals (George and Wilding, 1984:42-52). For new liberals, their new approach was based on existing private capitalist system. As Beveridge was a cautious new liberal, or 'reluctant collectivist', it was not surprising that the Beveridge Plan would turn out to be a mixture or a compromise of both sides. In Taiwan, as will discuss in the later chapters, there is no strong tradition of 'classic liberalism', so its future approach could be somewhat more radical than Beveridge.

Technically, the supreme feature of social insurance is that its benefit should be closely related to its compulsory contribution. That is, the right of benefit should be theoretically earned or derived from the corresponding contribution. More simply, social insurance should be contributory based on an actuarial principle. Because both contribution and benefit of social insurance can be either flat rate or earnings-related, so the possible combinations of contribution and benefit can be listed out as the following four ones:

1. flat rate contributions to finance flat rate benefits,
2. earnings-related contributions to finance earnings-related benefits,
3. earnings-related contributions to finance flat rate benefits, and
4. flat rate contributions to finance earnings-related benefits.

Among these four cases, the last one was not only the most regressive but politically



undesirable, so it was definitely objected to by all people. The third one was the most progressive, it was welcome by new liberals but rejected by Beveridge as a 'Santa Claus State' (Harris, 416). So the remaining options for Beveridge were only the first one and the second one. However, because the second one was exactly the same as the existing private insurance, and because Beveridge also wanted to fulfil another policy objective: to encourage the development of private saving, voluntary insurance or voluntary thrift (389), he would not be happy to allow a giant, monopolistic state scheme to compete with numbers of small private schemes (416), therefore, the second option would also be excluded. Finally, the only option left to be chosen was the first one: flat rate contribution to finance flat rate benefit.

It was true that flat rate insurance scheme had great advantages of familiarity and administrative simplicity (MPNI, 9). But its inherited weaknesses were as follows. Firstly, from the point of contribution, in principle it should fall equally on the incomes of rich and poor. It would be no financial problem for the better-off, but it would hit the poorest hardest. In order to relieve the financial burden of the poor and to maximize the coverage of protected population, the level of contribution has to be set at a level as low as possible (SSSS, 10). Unfortunately, no matter how the shares were allocated among employers, employees and state, in theory a low contribution would lead to its logical result: low benefit. Then, from the point of benefit, as its principle was to provide a benefit of adequacy at least up to the level of subsistence, so the level of contribution should be high enough reasonably to finance such an adequate benefit. So the principle of adequacy was contradictory to the principle of comprehensiveness in Beveridge's social insurance scheme.

Even for the benefit itself, its level was also not easy to be fixed owing to the definition of 'subsistence' and 'adequacy'. For example, when the factor of rent was taken into account, this question became very difficult. Should the meaning of 'subsistence' be restricted to only physiological level, or should it be extended to include some elements of psychological or even social needs? In underdeveloped



countries, there could not be very much objection to defining 'subsistence' at only the physiological level due to lack of necessary financing ability to afford more. But there would be a great disagreement in developed countries to do so. In the field of social insurance, 'rent' is a formidable or even an unconquerable problem. As Beveridge (77) and his committees (Harris, 397) pointed out, rent varies markedly not only between regions but between similar accommodation in the same town and even the same street, not to mention extreme cases. No single amount of rent could be appropriate. Under these circumstances, if actual rent was paid, then that would imply not merely the poor to subsidise the rich but a measure to frustrate owner-occupiers. But if only an average rent was paid, as Beveridge did, then it would be too much for rural area and too little for the urban area. Both cases demonstrated inefficiency. As the character of rent or housing is so different from social security, it should be dealt with by a special housing policy, not by a social security policy. The current Tory Government's encouraging of more people to become owner-occupiers is a better policy to tackle the problem of rent. However, this policy was valid or effective only in the long term. In the short term, there would still be a big problem in the poor being able to pay rent or to repay loans to buy houses. In that case, the side effects of housing benefits could be less if they were paid in kind rather than in cash, and through social assistance rather than through social insurance.

According to his plan, Beveridge was in favour of a totally funded method for his social insurance scheme. He explicitly turned down Keynes' suggestion to run the scheme by a pay-as-you-go method and some witnesses' proposal to finance the scheme by a surcharge on income tax (ie, earmarked tax) for fear of losing the attribute of insurance (107). Only if the insurance scheme is fully funded, then the benefit or pension right can be firmly earned and established. And only such kind of earned right can be freed from all kinds of bureaucratic discretion. On the other hand, in case of the pay-as-you-go system, because it is through redistribution between generations, the financing of the old age pensions of this generation will totally fall on

the next generation, so the change of the population size of each generation will greatly influence the ratio of earners to pensioners. When this ratio decreases, if we want to keep pension level unchanged, then the pension burden of earners or producers (including employers and employees) will increase; but if we want to keep the contribution level unchanged, then the pension level of pensioners must be reduced or there will be a deficit in the scheme. It will be a political struggle in each stage to reach a compromise between pension right and contribution obligation (or more generally, tax obligation). More briefly, under such circumstances, it is the government in power that defines the level of benefits; all political promises are not certainly guaranteed in the future (Shragge, 152; Dilnot, et al, 29). The current Tory Government's modifying the SERPS pension levels set by the previous Labour Government in SERPS is the best example. Explicitly, it was his dislike of administrative 'police supervision' and uncertain pension right, his belief in psychological value of contributory insurance, and his desire to build up an unalterable pension right earned through personal contributions and to encourage voluntary action and thrift, which made Beveridge wholeheartedly espouse a fully funded social insurance scheme building up within a period of 20 years.

Finally, it could be a good idea to take a general review of the whole plan for social security which had been laid down by Beveridge in his Report. In general, the main objective of his Plan was to tackle the problem of 'want' or 'poverty' without discouraging voluntary thrift and saving. Was his Plan of three assumptions, three methods and six principles effective to achieve this aim? This question needs to be explored thoroughly. According to the concepts in the previous chapter, Beveridge's terminology of 'assumptions', 'methods' and 'principles' confuses rather than clarifies. In theory, the possible basic methods or patterns of social security are mainly three: social assistance, social insurance and universal allowance. As described previously, the three 'assumptions' in Beveridge Plan are in practice the 'universal allowances' both in cash (e.g. family allowance) and in kind (e.g. health and employment services)

in the author's typology. So the design of the Beveridge Plan was to arrange social insurance as the 'main tier' of social security, and then to arrange universal allowance as its 'front tier' and social assistance as the 'spare tier'. As all these three tiers of social security are inseparable parts in his plan, explicitly, Beveridge tried to establish an integrated system though he had a strong preferential attitude to social insurance and explicitly disliked social assistance.

As mentioned in the previous chapter, the weaknesses of social assistance are its administrative expensiveness, stigmatising and discouraging voluntary thrift and saving, so it is not a ideal method to tackle regular long-term contingencies. If we have to use it, its maximal level of benefits had better not be higher than social insurance, or a strong side effect of discouraging voluntary saving will be caused. As for social insurance, its main weakness is exclusion, both in coverage and in contingencies, because irregular contingencies will ruin its actuarial principle and the people with low income or without income will be unable to contribute. In theory, as mentioned before, social insurance can provide either flat rate or earnings-related benefits to protect the insured from both long-term and short-term contingencies by flat rate or earnings-related contributions, but their consequences are different. As for the administration of social insurance, it can be managed by a unified single scheme or numbers of separate small schemes. The greatest merit of a unified scheme is the economy of administrative cost, and its shortcoming is the loss of economic efficiency in the investment of its fund due to the decrease of competition. As for the latter, its shortcomings are the expensiveness in administration and the retard of labour mobility; and its merit is the efficiency in investment. In public social insurance, as Beveridge was in favour of unified single administration, he saw such a scheme as a great advantage over private small insurance enterprises if they also provide the same services. Because there were already many private insurance enterprises to provide earnings-related benefits for long-term contingencies such as old age, so, in theory, in order to avoid unfair competition between giant, monopolistic

public social insurance and small private social insurance enterprises, there should be a functional division between public and private insurance. One of the options of division is that the newly established public social insurance may concentrate itself on only flat-rate benefits for long-term contingencies. Moreover, in order to combat or prevent poverty, the level of flat-rate benefits should be adequately high up to or even over poverty line. And then all private insurance schemes provide benefits on top of this flat-rate public benefit voluntarily.

Compared to social insurance and social assistance, there is no means test and contribution test nor have their side effects in universal allowance. In theory universal allowance is a good method to provide flat rate benefits for regular long-term contingencies such as childhood and old age if we want to achieve the criterion of administrative efficiency. But for the purpose of encouraging private voluntary actions and the sake of maintaining the attribute of insurance, Beveridge rejected a universal allowance as the provision for old age. However, nowadays many scholars such as Reddin (1985:29-31) are in fact implicitly in favour of universal allowance in social security, because, when the availability of employment becomes uncertain at present or in the future, not only are contributions not a reliable and sufficient source to finance the provision of social insurance any longer but also the coverage of social insurance will be greatly reduced or even become a privilege of the minority. Whenever the financing of social insurance does not totally rely on contributions and its entitlement to benefits is also not totally decided by a contributions record, then the scheme has in fact shifted towards a universal scheme already. At least, it has been shifted to the mid-way house.

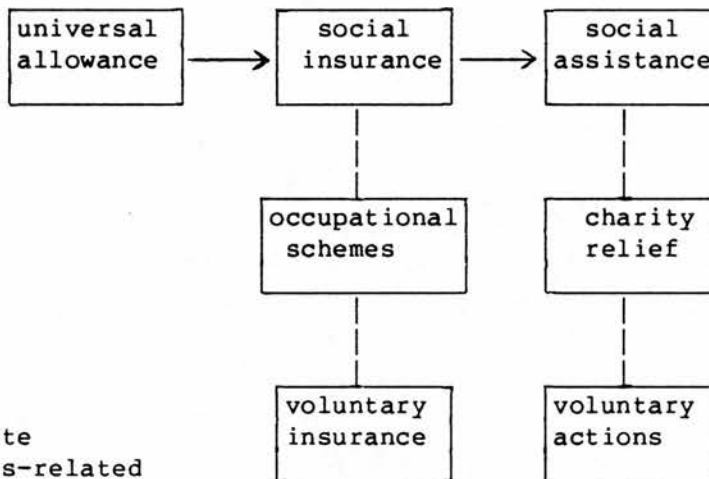
Theoretically, Beveridge's 'assumptions' are in fact the author's 'universal allowances'. The difference is that only children's allowances are benefits in cash, and health and employment services are benefits in kind. The matter of in-kind benefits is more complicated than cash benefits. In the field of social policy, like housing and education, health and employment are also independent branches paralleled and

closely related to social security. Nevertheless, in the field of universal allowance, its main weakness is that its benefit expenditure will be very high or even too high to afford if its benefit level is at a high flat rate. This flat rate is generally and politically decided according to the financing ability of a society, so whether this flat rate is adequate or not cannot be certainly guaranteed.

As mentioned above, the framework of Beveridge Plan can be summarised as Figure 3.1. According to this framework of social security, it is helpful to make clear many moot points in Beveridge Plan. At first, as there already had been many quite strong private earnings-related insurance schemes such as occupational schemes, and as Beveridge also wanted to encourage voluntary actions, this was the reason why he set only flat rate provisions in his social insurance scheme because he wanted to avoid competition between them. Nevertheless, although he also realised the limitation of exclusion in social insurance, he could not but leave these excluded groups of persons to social assistance despite its disincentive effects. Moreover, as mentioned before, as the availability of employment is not always guaranteed at all times, especially the later evidence showed that full employment would cause the problems of labour shortage and inflation both in wage and in price (Crossman, 8), so his plan was dependent on a basis which was not very solid and certain, because too much emphasis was put on social insurance which in turn relied on the pre-condition of full employment.

Figure 3.1 Beveridge's Framework of Social Security

	front tier	main tier	spare tier
contingencies or needs	ordinary regular	ordinary regular/irregular	special irregular
length	long-term	short-term long-term	short-term
financing	general revenue	contributions F-R; E-R*	general revenue
test	citizenship	contribution	means
benefit	in cash: F-R in kind£	F-R; E-R*	need-related



## Notes:

F-R = flat-rate

E-R = earnings-related

\* = for voluntary actions

£ = health and employment services

Apart from the purpose of encouraging private voluntary actions, taxing ability and substitution effects might be the main practical restrictions for modern societies not to apply universal allowance as main provision for the elderly because most schemes are tax-financed. Even child benefits are generally designed as supplementary scheme and not enough by itself. However, as a society becomes more affluent, nowadays not only the value-judgement of some conservative writers can agree that even the people who are idle, foolish or improvident should not be allowed to starve (Morgan, 15), many more liberal people are even campaigning for an all-universal allowance such as basic income or social dividend (BIRG). So, an all- universal

allowance for all people might be still too radical, but a sub-universal allowance for the elderly at the level of physiological subsistence should not be radical any longer.

### 3.4. After Beveridge

Following the presentation of Beveridge Report, the Family Allowance Act was passed in 1945; the National Health Act and the National Insurance Act (including industrial injuries) were passed in 1946; and the National Assistance Act was passed in 1948. All these social legislations were carried out by the post War Labour Government. However, they did not totally follow Beveridge's original plan, there were several departures in these Acts from Beveridge's proposals (DHSS, 1985a:III64). Firstly, the departure in the Family Allowances Act was that it rejected Beveridge's recommended level of 8 shillings (1 shilling = 5 pence) for each child after the first and adopted a weekly rate of only 5 shillings. Secondly, the main departures in the National Insurance Act were as follows: a)unemployment benefit was paid only for a limited period, up to 12 months, not paid indefinitely; b)the full flat-rate old age pensions were introduced immediately, the 20-year's phasing-in period was dropped (Dilnot, et al, 17); c)the benefit level was assessed as 131% of Rowntree's 1938 level, higher than Beveridge's recommendation of 125%; but after taking account of the influence of inflation, the real benefit in 1948 was only three quarters of Beveridge's recommendation; that is, the real benefit level was one quarter less than the Beveridge Plan (Shragge, 44-45); d)the level of industrial injury benefits was as high as the war pension. Thirdly, the departure in the National Assistance Act was that the assistance included the actual cost of housing; this cost made the benefit level of assistance much higher than that of insurance benefits which included only average rent of 10 shillings. So a large number of insurance beneficiaries also qualified for assistance benefits (DHSS, 1985a:II31). This practical measure widely deviated from the relationship between social insurance and social assistance in which Beveridge (141) espoused that the benefits of social assistance should be less desirable than that of social insurance in order to encourage voluntary actions. Because some of these



departures were very critical, Beveridge's integrated planning was in fact greatly distorted, so he should not be held responsible for most of the failures though he could be criticized as being politically unrealistic.

For example, first, the dropping of the 20 years' phasing in period of transition was in fact to change Beveridge's financing method of social insurance from a funded system into a pay-as-you-go system. Because a pay-as-you-go system is in fact to treat all contingencies as only short-term ones, so all contingencies can be pooled within a short period of time such as one year. In theory no concern is necessary to pay for the future though there is a commitment of payment for long-term contingencies such as old age and disability. Simultaneously, no benefit can be guaranteed without a strong sense of social solidarity and political credit. Under a funded system, if the collected contributions can be invested in the form of capital, then its benefit right will be able to be inflation-proofed in some degree, at least its interest from fiscal agencies will be able to compensate the loss from inflation to some degree. That is, the benefit right in the funded system might suffer some loss from inflation, but this right is solid and guaranteed. But under the pay-as-you-go system, because all contributions are in the form of cash or money, so its benefits are barely exposed to inflation. Its only remedy is to index the contribution, ie, to request the current contributors to pay more. In summary, we use capital gains and dividends to tackle inflation in the funded system, and use the method of indexation of contributions in the pay-as-you-go system. They are two different ways to tackle the same problem. If we can accept the above interpretation, then it is quite unfair to criticize Beveridge for not taking account of inflation.

Second, as Beveridge expected, in the long term the low benefit at only subsistence level would have the function to encourage people to develop better or additional private provisions for their future needs. The great development of occupational pension schemes after Beveridge could be its true result. However, in short term, low insurance benefit was the force to push more people to rely on

assistance (Shragge, 52), especially, if social insurance benefit was lower than social assistance.

After the Labour Government, there followed 13 years' of Tory Government from 1951 to 1964. During this long period, one significant change in the Beveridgian British social security for elderly people was the introduction of a limited earnings-related element to the National Insurance Act of 1959. Why was this new change introduced? That was the effect of the dropping of a 20 years' maturity period, because this drop violated the actuarial principle of 'insurance' and let the people who had not contributed or were in fact unable to contribute long enough to qualify their pensions right at its inception. In the early stages, there was still some surplus in the fund because many pensionable people continued working due to the labour shortage after the War. But there was a drop in the excess of receipts over payments in the fund from 1952 to 1958. Finally, there were deficits from 1959 to 1961 (Shragge, 71). So, it was this financial crisis which pushed the Tory Government to find a new source to finance the system. As Government did not want to subsidise from general revenue, and it was in fact impossible to raise the flat rate contributions without suffering low-income earners, so the only possible way to finance the system was to levy earnings-related contributions adding to the original flat rate one. Correspondingly, an additional earnings-related benefit was also provided.

This new Act came into operation in 1961 and was entitled 'Graduated Pension'. According to its White Paper, *Provision for Old Age* presented by Boyd-Carpenter, the aims of this Act were to achieve the following three objectives: 1)to place the National Insurance scheme on a sound financial basis; 2)to institute provision for employed persons who cannot be covered by an appropriate occupational scheme to obtain some measure of pension related to their earnings; 3)to preserve and encourage the best development of occupational pension schemes (MPNI, 13). Nevertheless, this change demonstrated that, on one hand, the flat-rate contributions were not sufficient to finance the scheme and, on the other hand, the flat-rate benefits were not

sufficient to meet needs.

However, though the graduated pensions was very poor, this new addition of earnings-related elements would still compete with existing private schemes and was contradictory to another traditional, cherished objective of Tory party: to encourage voluntary thrift and saving. According to the Government Actuary's first survey of occupational pension scheme membership in 1959, as membership was as large as 8.75 million, so the 1959 Act allowed occupational pension schemes to 'contract out' if an employer could demonstrate that they offered employees pensions equivalent to the maximum available under the state graduated scheme in order to avoid competition or even contradiction. Contracting-out employers and their employees were exempted from earnings-related contributions, paying only the flat-rate part (DHSS, 1985a:III1). Nevertheless, this graduated pensions was not inflation-proofed and did not cover the self-employed, so it was seriously attacked by the opposition and finally replaced by the new State Earnings-Related Pension Scheme (SERPS) on 5 April 1975 although the rights to graduated pension already earned were preserved.

Before the repeal of 'Graduated Pension', Britain experienced two changes of government and two proposals for change in British pension policy. The first one, the Crossman Scheme or *National Superannuation*, was introduced in 1969 by the Labour Government. In order to provide a really adequate pension by right from contributions, the scheme proposed to abolish the flat rate part and, totally base it on a pay-as-you-go system, to create a comprehensive and fully earnings-related scheme in both benefits and contributions, with the partnership of existing occupational pensions and private means (SSSS, 1969:11-12). Although the measure of 'partnership' was actually the same as the Tory's 'contracting out', this new reform was more radical than the previous 'Graduated Pension'. As mentioned before, the earnings-related scheme would unavoidably have the problems of either excluding low income earners or providing them with inadequate pensions. For the newly established scheme, there was also the problem of valid contribution records for existing

pensioners (Shragge,131). Crossman tried to use the method of negative income tax (NIT) to guarantee all pensioners would receive their benefits up to a guaranteed adequate minimum. Unfortunately, this attempt failed due to the Inland Revenue refusal to have income tax assessment used in this way. In addition, Inland Revenue also did not have the information on rent and capital which were necessary for NIT operation. In addition even the old age pensioners and low income earners did not like the idea of their stigma being removed by filling in tax forms (Crossman, 17-18). Furthermore, because the reform was started too late, the scheme failed to become law due to the fall of the Labour Government the next year.

The second change was the 1971 Joseph Scheme which was expressed in a White Paper, *Strategy for Pension*, under the Tory Government. Generally, the main difference between the Crossman Scheme and the Joseph Scheme was that the Crossman Scheme tried to reform the pension scheme within the field of social insurance by an earnings-related approach, but the Joseph Scheme wanted to maintain the 1959 Boyd-Carpenter Scheme and tried to put more emphasis on social assistance. Within this new scheme, there was a significant shift of principle from Beveridge's universality or universalism towards the Tory tradition of selectivity (Shragge, 135). Apart from the main policy consideration, there were also some minor provisions and some administrative improvements in this scheme. For example, universal old age pensions were provided for those over 80 years. Pensions would be reviewed every 2 years (originally 5 years; and reduced to one year in the formal Bill) to tackle the problem of inflation. Pension rights were to be preserve with job mobility in occupational schemes. And finally, contributions would be collected directly through the PAYE system. Nevertheless, this Tory proposal adopted the previous Labour idea: to set a fully earnings-related contribution though they still preserved the original dual benefits --- one flat rate, one earnings-related. As for the low income earners who earned less than one quarter of the average adult male manual worker wage, they were left to the responsibility of social assistance (Shragge, 137). Joseph's

scheme did become law, but was repealed in 1974 on the return of a Labour government, before it could be implemented.

Finally, many real changes in pension provisions were made in the 1975 Social Security (Pension) Act which was proposed by Barbara Castle in the 1974 White Paper, *Better Pensions*. Having experienced consecutive failed attempts at social security reforms of the 1969 Crossman scheme which putting more emphasis on earnings-related social insurance and equal income redistribution and the 1971 Joseph scheme which putting more emphasis on means-tested social assistance and market operation, pension policy had really become a 'political football' or 'political see-saw'. In order to avoid such uncertainty, Castle produced a scheme of compromise between Labour and Tory, between public and private. Apart from Labour's own cherished fully earnings-related contributions and benefits, the Tory's private provisions based on market operation were also incorporated and even strengthened. To be brief, the central focus of SERPS was to improve pension level by 1)full inflation-proofing for both public and private pensions, 2)assessing amount of pension based on the best 20 years' earnings, 3)equal treatment of women and men, and 4)a guaranteed minimal pension for all in order to free all pensioners from relying on social assistance (DHSS, 1985a:III2-4; SSSS, 1974:5; Shragge, 143). Under this new scheme, for all insured persons whether they are contracted out or in, their final due amounts of additional earnings-related pensions will be not much different because the SERPS will make up the difference. However, for those who are contracted out, they and their employers may take the advantage to pay a lower rate of contribution on the earnings that count towards additional pensions by the form of tax allowance or tax subsidy. Owing to practical difficulties, the self-employed were still excluded from the SERPS.

After the Conservative Government came into power in 1979, there was another modification in the compromised British social security. In their original proposal in the Green Paper, *Reform of Social Security*, the long run goal of the Tory Government was to abolish the SERPS for those who will retire in the next century though the

pension rights of those who will retire before this century would still be honoured, and to retain only flat rate state pension and earnings-related private occupational and personal pensions. Because the financing of generous SERPS is based on pay-as-you-go method, so all the financial burden will be shifted to the working population in present and future generations. There is no more right for this generation than for future generations to prescribe the pension level and contribution rate in the future. That is, no pension level can be guaranteed under the pay-as-you-go system. However, the Tory Government was forced to preserve this scheme in their Whit Paper, also entitled *Reform of Social Security*, half a year later in view of wide opposition from big business such as Confederation of British Industry (CBI), pension firms and the large number of small private employers and their low income earners, because it is more expensive for them to set up their own private scheme than to participate in the public one. Instead of abolishing the SERPS, the Government are trying to reduce the emerging costs of SERPS pensions in the following three ways. Firstly, the pension will be based on a lifetime's earnings, instead of on the best 20 years, and will be calculated as 20% of earnings, rather than 25%. Secondly, widows and older widowers will be able to inherit up to half, rather than all, their partner's SERPS pensions. Thirdly, the contracted-out occupational schemes are required to be responsible for inflation-proofing guaranteed minimum pensions in payment up to 3% a year, the remaining difference will be still made up by SERPS (DHSS, 1985b:4). All private pensions, both occupational pensions and personal pensions are still able to contract out of SERPS by guaranteeing a level of contribution of 4%, rather than a level of benefit (DHSS, 1985b:4-5, 14-16). So the financial uncertainty of employers is relieved.

In the field of social assistance, according to the proclamation of the White Paper, the objective of reform is to hold a rein on its rising expenditure by providing efficient and responsive system of financial help which not only meets genuine needs but also encourages independence. Before 1988, there were three main provisions in British



social assistance system: supplementary benefits (SB), family income supplement (FIS) and housing benefits (HB). All of them had their own means tests, so their administration was complicated in different degree depending on the numbers of benefits and beneficiaries. The larger the numbers, the more complicated the system. In a study by Reddin in 1968 (1970a, 9; and Midgley, 89), were as many as 3,146 means-tested benefits in all local authorities. Even in a recent widely quoted figure provided by the National Consumer Council (NCC), there were still as many as 45 means-tested benefits (Dilnot, et al, 25). In order to simplify the administration, the pioneer measure was to except further tests for the elderly and the older long-term unemployed who have continually received benefits for two years and allow them to renew their benefits automatically.

In the formal reform in *Reform of Social Security*, two major changes are made. The first change is that all means-tested benefits will be assessed by using basic rules in particular as regards 'net income' which is after tax and national insurance contributions (DHSS, 1985b:21). The second change is that people with capital of more than L6,000 will not be eligible for any benefit. Capital between L3,000 and L6,000 will be assumed to produce a weekly income of L1 for each L250 which will be taken into account at net income in assessing entitlement to income-related benefits (DHSS, 1985b:26). But later this upper limit of capital is raised to L8,000 for housing benefits.

The second reform is that SB has been replaced by Income Support (IS). Contrary to Family Credit (FC) which is replacing the former FIS, the applicants of the IS are restricted to the people who do not work or work under 24 hours a week. The main object of this reform is to simplify the administration of the scheme by providing a basic rate of benefit, 'personal allowance', with additions, 'premiums', for particular groups--- families, lone-parents, pensioners, higher pensioners, disability and severe disability. For example, the personal allowances are L33.40 for single person over 25 years old (including the elderly) or lone-parent aged 18 years or over; L51.45 for a couple aged 18 years old or over (including the elderly). Additional 'premiums' will



depend on personal situation (DHSS, 1988; leaflet NI196). For special or emergency needs, people will be able to get help from the new Social Fund (SF) in the form either of a loan or of a grant. As for HB, its administration is also simplified by reducing the number of tapers--- the rate at which benefit is withdrawn as incomes rise--- from six to two. But, on the other hand, everyone will be expected to make some contributions of at least 20% to their own domestic rate (DCE, 1988:11275).

In the field of universal allowance, there are no major changes. A very minor change is that the coverage of child benefit and invalid care allowance is slightly extended. In child benefit the benefit is made payable to young people who continue to be educated at home after the age of 16. In invalid care allowance the benefit is extended to married women.

In the whole period of After Beveridge Age in British social security, particularly in the field of pension policy, many changes have been experienced. Some of them were major, and some were minor. All these policy changes were deemed to find out a stable and efficient way to achieve the original goal of social security. Nonetheless, in British society, because its social security policies were formulated through its own special political machine which was driven by the elected party, so it was necessary to understand the basic ideologies or values of its parties at first, then we could understand the force and trend of its social security policy. In general, there were two quite different, sometimes even opposite, types of orientation in the two main political parties in Britain. On one hand, the Labour Party explicitly favoured collective, state-provided benefits based on a universal basis. On the other hand, the Tory Party tended to favour the social provisions linked to the market, supplemented with state aid, and based on the principle of selectivity (Shragge, 29). More briefly, Labour emphasized public unified pay-as-you-go provisions which have the advantage in administrative efficiency, and the Tories emphasized private separate funded ones which have their merit of efficiency in investment. Because these political arguments and struggle mainly occur in the field of long-term contingencies and pensions, so

they are described as a 'political see-saw' or 'pension politics'.

The direct result of the 'political see-saw' is the uncertainty of pension policy. Although this uncertainty is quite undesirable in a democratic society, it is by nature unavoidable in social security system as long as the element of income transfer or income redistribution is involved. In a democratic society like Britain, because both benefit expenditure and taxation (including contribution) are determined by politicians, so there is a strong force to push the politicians, on one hand, to raise the level of benefits and, on the other hand, to retard or even to reduce the rate of contributions. So its unhappy result is to cause a financial crisis (in forms of deficit and/or borrowing) for the social security system or, at the worst, to cause an economic recession through serious inflation. This is a common financial problem for many western welfare states.

As benefits (B) must be financed by some financial sources, mainly taxation (including contributions), so they (benefits) can be considered as the direct function of Taxation (T), ie,

$$B = f(T),$$

The above problems, both financial crisis and economic recession, can be avoided only if this equation can be maintained in balance. Facing this social security financing equation, from technical point of view, this balance can be achieved only by a thorough actuarial calculation by professional experts; but from democratic point of view, the operation of this equation should be under the control of the politicians, so there is a theoretical contradiction between politicians (e.g. MP) and civil experts. In a democratic society, because both sides are generally decided by the non-expert politicians, so it is difficult for them to achieve the balance of the equation. But in a non-democratic society, though both sides are decided by government, unfortunately, the government officials are not certainly experts, so the balance is still not easy to achieve.

As Taiwan is also a democratic society, there will be the same financial problem in Taiwan in the future. However, this problem could be easier to solve in Taiwan because its political system is in theory based on Dr. Sun Yat-sen's *Theory of Separation of Political Power and Administrative Ability*, which will be pursued in detail in chapter 5, in which political power belongs to the people and administrative ability (or administrative power) belongs to the government. This division of labour between politicians and government experts will provide a possible way to an adequate balance of the equation. According to Dr. Sun's theory, the politicians are empowered by the people (or more accurately, the electorate) to have the priority to decide only one side of the equation, either to decide the level of benefits or the rate of contributions (or tax), and the government are empowered to decide the other side of the equation, so the aim will be able to be achieved, because only the professional experts in government have the ability and knowledge to actuarially calculate out a proper figure to balance this equation. It is beyond the ability of political parties or the members of parliament to play such a role. The adequate role for them is to decide whether we need a pension or not, or only to decide what the level of the scheme should be. The remaining decisions in the other side of the equation should leave to the government experts.

### 3.5. The Actual Provisions

Since the end of nineteenth century, old age has been the major provision of social security in Britain. Many different proposals have been raised, and many different schemes have been applied in order to find out the best way to tackle this contingency efficiently and satisfactorily. In Britain, nowadays, special needs of the elderly are generally met by various benefits in kind such as education, health service, employment service and personal social services which are provided by the other branches of social policy, so it will be sufficient for standard social security benefits to meet all other common needs of the elderly.

Britain is one of the oldest advanced welfare states in the world, and her social

security expenditure was as high as 12.5% of GNP and 26.4% of general government expenditure in 1986 (see Table 3.1). When we analyse the social security expenditure in terms of categories of beneficiaries, around a half of it goes to the elderly (see Table 3.3). In fiscal year statistics (from April to March next year), we also can see that the expenditure on social security is far higher than any other social welfare service and amounts to as much as total expenditure of all the others together. The total welfare expenditure is about a half of government expenditure (see Table 3.2). These figures strongly demonstrate the importance of the role of social security in this country and the elderly in social security.

Table 3.1 Basic Annual Statistics in Britain

year	GNP at factor cost L million	per capita GNP L	government expenditure in GNP %	social security in GNP %	social security in government expenditure %
1976	115 340	2 051	42.6	9.2	21.6
1977	129 463	2 303	43.2	9.8	22.7
1978	149 913	2 666	41.6	10.1	24.2
1979	172 642	3 073	43.2	10.3	23.9
1980	199 439	3 541	45.9	10.7	23.4
1981	218 672	3 880	48.6	12.1	25.0
1982	236 656	4 195	49.7	13.1	26.4
1983	260 338	4 624	48.4	12.3	25.5
1984	279 353	4 949	48.1	12.4	25.7
1985	305 426	5 394	48.1	12.3	25.6
1986	323 775	5 704	47.4	12.5	26.4

Note: GNP=GDP(income-based) + residual error +  
net property income from abroad  
=National Income + capital consumption

Source: 1) CSO, 1987:45, 1988a:240, 242.

Table 3.2 Social Welfare Expenditure in Britain

year	general government expenditure £ billion	social welfare expenditure					defence %
		A %	B %	C %	D %	E %	
1981-82	120.1	23.8	10.6	9.9	2.6	1.9	10.5
1982-83	132.6	24.5	10.5	9.6	2.0	1.8	10.8
1983-84	140.3	25.1	10.5	9.6	2.2	2.1	11.0
1984-85	150.0	25.4	10.5	9.3	2.2	2.1	11.4
1985-86	158.2	26.2	10.5	9.1	1.9	2.1	11.4
1986-87	164.8	26.9	10.9	9.5	1.6	2.4	11.0
1987-88	172.6	26.9	11.4	10.0	1.4	2.3	10.9
(estimated)							
1988-89	183.0	26.5	11.3	9.4	1.3	2.2	10.5
(Planned)							

Notes: A = social security

B = health and personal social services

C = education and science

D = housing

E = employment

Source: DCE, 1987:I30, 1988:I32.

Table 3.3 Social Security Expenditure by Beneficiaries

year	Total million	A %	B %	C %	D %	E %	F %
1978-79	15 870	55.1	15.8	8.6	4.3	15.8	0.4
1979-80	18 780	53.9	14.8	7.8	4.0	19.0	0.4
1980-81	22 680	53.5	14.0	11.2	3.7	17.1	0.4
1981-82	27 690	51.8	13.3	14.5	3.4	16.6	0.4
1982-83	31 620	51.0	12.9	15.8	3.2	16.6	0.4
1983-84	34 840	50.7	12.7	16.4	3.0	16.8	0.4
1984-85	37 760	49.8	13.3	16.8	2.9	16.9	0.4
1985-86	41 210	49.7	13.6	16.9	2.7	16.8	0.3
1986-87	44 130	49.6	14.4	16.5	2.6	16.6	0.3
1987-88	45 940	50.4	15.3	14.9	2.5	16.7	0.3
(estimated)							
1988-89	47 450	50.4	15.7	14.4	2.4	16.9	0.2
(planned)							

Note: 1) The 'total' excludes some special payments to certain groups of claimants but includes rate rebates which are not public expenditure  
 2) 'A' includes SB paid to men under retirement age but over 60.  
 3) 'E' includes child benefit, one-parent benefit, FIS, maternity benefit, and SB paid to one-parent families and to people looking after elderly parents.  
 4) A = elderly people  
     B = sick and disabled people  
     C = unemployed people  
     D = widows and orphans  
     E = family  
     F = housing benefit paid to people in work

Sources: DCE, 1984:II85, 1985:II171, 1986:II233, 1987:II241, 1988:II267.

In British official statistics social security benefits are classified as contributory benefits and non-contributory benefits. And non-contributory benefits are further classified as income-related benefits and not income-related benefits. According to the definition in the previous chapter, the contributory one is social insurance; the non-contributory and non-income-related one is universal allowance; and the non-contributory and income-related one is social assistance. Their detailed benefits can be listed as follows:

- I. Social Insurance
  1. Retirement pension
  2. Invalidity benefits
    - a) invalidity pension

- b)invalidity allowance
- 3.Widows' benefits
  - a)widow's pension
  - b)widow's allowance
  - c)widowed mother's allowance
- 4.Unemployment benefit
- 5.Sickness benefit
- 6.Maternity allowance
- 7.Death grant
- 8.Child special allowance
- 9.Guardian's allowance
- 10.Christmas bonus
- 11.Industrial benefits
  - a)industrial disablement benefit
  - b)industrial death benefit
  - c)industrial injuries/diseases benefit
  - d)Workmen's Compensation
- II.Universal Allowance
  - 1.Child benefit
  - 2.Maternity grant
  - 3.One-parent benefit
  - 4.Attendance allowance
  - 5.Invalid care allowance
  - 6.Mobility allowance
  - 7.Severe disablement allowance
  - 8.Retirement pension
    - a)for those aged 80 and over
    - b)for those without NI pension
  - 9.War pensions
    - a)war disablement pension
    - b)war widow's pension
    - c)war orphans' pension
    - d)war parent's pension
  - 10.Christmas bonus
- III.Social Assistance
  - 1.Supplementary benefit (abolished, April 1988)
    - a)supplementary pension
    - b)supplementary allowance
 Income support (from April 1988)
  - 2.Family income supplement (abolished, April 1988)
 Family credit (from April 1988)
  - 3.Social fund (from April 1988)
  - 4.Housing benefits
    - a)rent rebate
    - b)rent allowance
    - c)rate rebate



Table 3.4 Value of Basic Weekly Benefit Rates in Britain

Benefit	07-1948	04-1955	03-1965	04-1975	11-1980	11-1985	04-1988
I-1: single	1.30	2.00	4.00	11.60	27.15	38.30	41.15
couple	2.10	3.25	6.50	19.50	43.45	61.30	65.90
I-2-a: single	-	-	-	11.60	26.00	38.30	41.45
I-3-b	1.80	2.75	5.625	18.60	38.00	53.60	57.65
I-4: single	1.30	2.00	4.00	9.80	20.60	30.45	32.75
couple	2.10	3.25	6.50	15.90	33.40	49.25	52.95
II-1	0.25	0.40	0.40	1.50	4.74	7.00	7.25
II-3	-	-	-	-	3.00	4.55	4.90
II-4:high rate	-	-	-	9.20	21.65	30.60	32.95
II-6	-	-	-	-	14.50	21.40	23.05
III-1-a:single	-	-	-	12.00	27.15	37.50	-
couple	-	-	-	18.85	43.45	60.00	-
III-1-b:single	1.20	1.875	3.80	9.60	21.30	29.50	-
couple	2.00	3.15	6.275	15.65	34.60	47.85	-
IS: single,25+	-	-	-	-	-	-	33.40
couple	-	-	-	-	-	-	51.45
III-2:1 child	-	-	-	31.50	67.00	97.50	-
FC: adult credit	-	-	-	-	-	-	32.10
child credit	-	-	-	-	-	- 6.05-21.35	
purchasing power,1980=100	780	600	450	196	100	71	66

Note: The figures in IS are personal allowances.

Sources: DHSS, 1988c:118; 1988:leaflet NI196; DCE, 1988:II274.

According to the above classification, we try to demonstrate their values by selected basic benefit rates in different years (see Table 3.4). By these rates we can get a general idea about the benefit level in Britain. Benefit levels were substantially increased during these decades even after allowing for erosion by inflation. Inflation should be a strong factor causing the rise of the expenditures of social security.

In Britain as the poverty line adopted by the Ministry of Social Security is basic scale rates of SB plus rent (Townsend, 1983:41), and as the benefit levels between social insurance pension and social assistance pension are almost the same, in many years the latter is even higher than the former, so the levels of basic state pension are certainly lower than the official poverty line. As many as 27-28% of insurance pensioners also had to claim national assistance or supplementary benefits in 1960s (CSO, 1971:89). Even today there are still over a half of pensioners eligible for

supplementary pensions though only two thirds of these actually claim them (Phillipson and Walker, 202). The situation seems never to change over decades. This is one reason why additional earnings-related pensions were introduced in 1961 and 1975. According to the latest reform, old age pension paid by Income Support (IS) consists of allowances and premiums which per week total L44.05 ( $33.40 + 10.65$ ) for a single person and L67.70 ( $51.45 + 16.25$ ) for a couple respectively. The differences between the new IS pensions and social insurance pensions is even larger than previous years. Only a general improved financial situation in insurance pensions, both public and private, will enable more old people to avoid applying assistance benefits.

According to Table 3.3, about a half of social security expenditures were paid to the elderly in 1987–88. As the amount of the expenditures is decided by the number of beneficiaries and the level of benefits, so the estimation of pension expenditure could be derived from the number of the aging population and the level of old age pensions. In Britain the elderly people age 65 years and over was only about 5% of the total population in 1900s, then it rose to about 10% in 1940s, and recently rose to 15% in 1980s (see Table A8.2 in Appendix). That is, during the last 8 decades, the proportion of old people in Britain has increased 5% for every 4 decades. (This does not mean it will be still the same in the future.) As the number of the aging population is mainly determined by 'population growth' (influenced by births and immigrants) and 'life expectancy', so if the population stops growing and the life expectancy rises, then the proportion of old people will increase. However, due to the limitation of natural resources and the living space of the earth, the most possible population trend in the future would be the ideal type of Zero Population Growth (ZPG), or a fluctuation around the ZPG. If ZPG can be achieved in the future, then because births and deaths will be roughly equal in case of ZPG, so life expectancy will play an important role in the change of the aging population in the future. Viewing the world population trend, Sweden is clearly approaching to this ZPG; Britain is also

rather near this object though population growth here has been fluctuating. In the case of ZPG, the proportion of old people of a society will eventually be decided by average life expectancy and the definition of old age. When the average life expectancy increases, more people will be able to live into old age, so the number of old people will increase. And if we define a lower age as old age, then more people will be classified as old people. If it is on the contrary, then the number of old people will be less (see Table 2.1).

Viewing the British population projections, we find that the population is forecast to grow up to a peak during 2030s and then to decline gradually (see Table 3.5). This is the special consequence of the baby boom of the 1950s and 1960s (Silburn, 29). That is, the babies born in that time fairly predictably will be in their old age in 2030s. Although baby boom will be repeated every 2–3 decades, they will become weaker and weaker, and finally they will disappear. So this baby boom phenomenon of the spiral growth of elderly population may be only a particular case. Although the size of future generations is not so sure as existing and past generation, they still demonstrate a quite stable average size. In the long run the normal case would be the approach to the aim of ZPG. According to the model in Table 2.2, because the average life expectancy in UK is not as high as 80, so the proportion of old people aged 65 years and over will not be able to be as high as 18%, which is only possible to achieve in demographical steady state, of the total population. Especially, as long as the population of the UK is still mildly increasing, its proportion of old people will be less than the figures in Table 3.5. In the field of social security, old age will be a problem only if it is a period of economic dependency because the elderly are totally withdrawn from the labour market. So it is quite suitable to define pensionable age 'old age' in western welfare states such as UK, West Germany and Scandinavian countries from the point of social security. If pensionable ages are defined as old ages and if they are different by sex, then the situation will be a little more complicated. In this case we have to estimate the proportions of different sexes

separately, and then make an average. For example, In Britain as the pensionable ages are 60 years for female and 65 years for male, so the proportion of pensionable people of the total population will fall in between the rate of old people aged 65 and over and that of 60 and over.

Table 3.5 Population Projections in Britain

year	N (million)			%	
	Total	65 +	M65+, F60+	65 +	M65+, F60+
1975	56.2	7.9	9.6	14.1	17.1
1980	56.2	8.4	9.9	15.0	17.6
1985	56.6	8.6	10.2	15.1	18.0
1986	56.8	8.7	10.3	15.3	18.1
1991	57.5	9.0	10.5	15.7	18.3
1996	58.3	9.1	10.5	15.6	18.1
2001	59.0	9.2	10.6	15.6	18.0
2006	59.3	9.3	10.9	15.6	18.3
2011	59.4	9.6	11.5	16.2	19.4
2016	59.6	10.4	12.1	17.5	20.3
2021	59.9	10.8	12.7	18.1	21.2
2025	60.0	11.3	13.4	18.8	22.3
2026	60.0	11.4	13.6	19.1	22.6
2031	60.0	12.3	14.3	20.6	23.9
2036	59.6	12.8	14.4	21.4	24.1
2041	59.1	12.4	13.9	20.9	23.5
2046	58.6	11.8	13.4	20.1	22.8
2051	58.1	11.4	13.1	19.5	22.5
2056	57.8	11.2	13.0	19.5	22.6

Sources: 1) OPCS, 1987:38-39

2) CSO, 1988a:24; 1988b:11-12

Table 3.6 The Expenditure of Social Security in Britain

year	million					%			
	Total	SI	UA	SA	A	SI	UA	SA	A
1978-79	16 401	10 601	2 579	2 525	696	64.6	15.7	15.4	4.2
1979-80	19 377	12 206	3 632	2 741	798	63.0	18.7	14.2	4.1
1980-81	23 483	14 843	3 987	3 579	1 073	63.2	17.0	15.2	4.6
1981-82	28 582	17 213	4 628	5 468	1 273	60.2	16.2	19.1	4.5
1982-83	32 451	18 593	5 118	7 358	1 381	57.3	15.8	22.7	4.3
1983-84	35 159	17 709	5 671	8 231	1 548	56.1	16.1	23.4	4.4
1984-85	38 114	20 777	6 183	9 430	1 724	54.5	16.2	24.7	4.5
1985-86	41 478	22 309	6 545	10 795	1 783	53.9	15.8	26.0	4.3
1986-87	44 416	23 983	7 000	11 496	1 937	54.0	15.7	25.9	4.4
1987-88	46 401	24 939	7 324	11 907	2 231	53.7	15.8	25.7	4.8

Note: SI = social insurance  
 UA = universal allowance  
 SA = social assistance  
 A = administration

Sources: DCE, 1984:II82, 1985:II166-167, 1986:II224-225,  
 1987:II234-235, 1988:II260-261.

As old age benefit has been a necessary provision for old people in modern societies, it is our aim to provide it efficiently and effectively. From this point of view, administration cost is one of the good indicators to evaluate the efficiency of the provision. By definition, administration cost is the cost to provide benefits. In Britain this cost is about 4% to 5% of total benefit expenditure (see Table 3.6). If we examine it in details, we can also figure out the cost of each benefit. As the cost of provision can be indicated by either a percentage of expenditure or a value per beneficiary, so the factors that will influence this cost could be the following ones:

1. the total expenditure of benefit--- the higher the expenditure, the lower the cost (expressed as a ratio);
2. the character of tests--- the tests of benefits are many, the less and the simpler the tests, the less the staff, and then the less the personnel cost;
3. the length of payment--- the longer the payment, then the less the tests and the less the staff cost;
4. the number of beneficiaries--- the larger the number, the lower the cost (expressed as a ratio).

Based on these criteria, it will be very useful to help us to understand the reason why the administrative cost of some benefits are so expensive and some are comparatively economical (see Table 3.7). Generally most supplementary benefits are short-term benefits, and their tests are also very complicated, so their personnel cost will be extremely high. This is the reason why supplementary benefits are the most expensive one in both measures. In addition to the fact that the number of beneficiaries is not very large, the same reasons are applicable for unemployment benefit, so it is the second most expensive one. As for child benefit and retirement pension, both of them not only are long-term payments but also have a very large number of beneficiaries and very simple non-income tests, so they are two of the most economical ones.

Table 3.7 Administrative Costs of Benefits, 1985-86

benefits	A	B	C	D	E
I-1	16 584	233	1.4	9 400	0.50
I-2 & 5	2 625	110	4.2	1 025	2.05
I-3	800	24	3.0	410	1.10
I-4	1 589	160	10.1	955	2.20
I-6	164	12	7.3	115	2.00
II-1 & 3	4 602	89	1.9	12 965	0.15
II-2	422	12	2.8	395	0.60
II-4	686	24	3.5	555	0.85
II-7	266	12	4.9	245	1.00
II-9	581	18	3.1	295	1.15
III-1	7 446	839	11.3	4 755	3.40
III-2	130	5	3.8	205	0.45
III-4	4 636	148	3.2	7 270	0.40

Note: A = total benefit expenditure in million pounds  
 B = total administration cost in million pounds  
 C = B as % of A  
 D = total number of beneficiaries (1,000)  
 E = average weekly administrative cost per beneficiary  
 in pounds ( = B/52D )

Source: DCE, 1988:II279.



### 3.6. Conclusion

After a study on the development of the British social security system, the most central aspect is Beveridge's framework of social security according to the context of his report. The cornerstone of this framework is social insurance. That is, this framework has social insurance as its main tier of provision, universal allowance as its front tier, and social assistance as spare tier. Parallel to social insurance, there are numbers of private voluntary schemes. Referring to the experiences in policy changes and reforms, the author tries to organize all the different related elements such as contingencies, time, financing, test and benefits into a rational figure. According to this framework, the author can thoroughly comment on not only the merits and weaknesses of Beveridge's original proposal, but also the success and failure of later development in the whole period of after Beveridge stage.

In addition, there is some similarity in the development between Britain and Taiwan. The British experience in social security provisions is really worth learning and referring to. First of all, the piecemeal constructed pre-Beveridge British social security was similar to that in Taiwan nowadays. For example, many similar schemes are administered by different government departments or agencies; they have in common problems of administrative inefficiency and financial difficulties. The experience in making the Beveridge Plan might provide a vivid mirror for future reform in Taiwan.

Referring to the Beveridge Plan, the pre-condition or 'front tier' of a universal health services is the most important one in Taiwan. It is worth taking more consideration. As for the conditions of family allowance and low unemployment, they are not so urgent in Taiwan because nowadays both family planning which leads to the decrease of family size and economic growth which increases the income of the family are still very effective. So they can be put in the second priority in the planning of social security in Taiwan. Moreover, viewing the lessons of Beveridge and subsequent reformers, as all three main provisions of social security have their own



merits and limitations, so it would be better to have a new attitude to treat them equally without any preference or discrimination. The application of each provision had better be based on their merits rationally. Then, a fully efficient scheme might be achieved.

In summary, the most meaningful lesson learned from the study of this chapter is to construct a rational framework of social security (as Figure 3.1). According to this framework, the main flaw of Beveridge Plan was that he put too much emphasis on social insurance. So his plan would not overcome the weakness of social insurance, exclusion. Though this exclusion could be solved by social assistance, however, for long-term contingencies such as old age and disability, universal allowance would be better than social assistance from the point of administrative efficiency and disincentive effects. Of course, in order to achieve the criterion of horizontal equity, the benefit levels of universal allowance are not necessarily flat-rate in order to achieve equivalent living standard for all beneficiaries. Based on universal allowances, the benefits of social insurance and private insurance may be provided on top of them. As for short-term and regular contingencies, it is the obligation of social insurance to provide either earnings-related benefits by earnings-related contributions or flat rate benefits by flat rate or earnings-related contributions. But if there are already many strong private earnings-related insurance schemes, then there should be another division of labour between public social insurance and private ones. Finally, all irregular contingencies such as flood, drought, earthquake and hurricane, no matter long-term or short-term, will be left to social assistance. They are protected by need-related provisions.

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## **CHAPTER 4**

### **THE METHODS AND PROCESS OF STUDY**

#### **4.1. Introduction**

The contents of this study can be roughly divided into two aspects: desk study and field study. In theory they are of the same importance, but in practice this study is dependent more on desk study which is based on official statistical data, study reports and related literature to answer the basic questions of this thesis than on self-financed field study which mainly aims to collect the data which are not available from the previous sources to explore the unanswered questions. Due to the lack of resources, it was financially impossible for the author to conduct a large scale field study. This was the reason why the author had to depend more on desk study than on field study. However, even in field study the cost of different methods could differ greatly. For example the cost of an interview research is much higher than a questionnaire research in money, labour and time. Nevertheless, expensive methods cannot be avoided or discarded due to their special advantages and function. So, the application of field study methods will be further dependent on the amount of resources available.

#### **4.2. The Desk Study**

In theory, as social insurance is the main social security provision in Taiwan, so, both in desk study and field study, the author has to put more emphasis on this provision than others. But, 'Is a social insurance oriented social security system a good one or an adequate one for Taiwan?' Explicitly, this question is not able to be answered by only the data of Taiwan any more, so the coverage of desk study in this thesis needs to include the construction of a general theoretical framework of social security in chapter 2 and the related case study of social security in Britain in chapter 3. Only under the direction of a general theory of social security, then the specific desk study of social security system in Taiwan could be meaningful and constructive,

not to mention the more specific field study.

In Taiwan there are three main separate, independent social insurance systems, ie, Labour Insurance (LI), Government Employees' Insurance (GEI) and Military Insurance (MI), so the first step is to conduct a desk study of these social security provisions in Taiwan. Their historical development and current structure is explained after reviewing the related literature such as legislative communiques where all legislative changes are well-recorded. The second step is to make clear its operation and function by studying its periodical annual statistics. However, more emphasis would put on the latter. In Taiwan, as the information of MI is confidential, only the statistics of LI and GEI are available in the field of desk study. Apart from the data of structural changes, the most reliable sources of operational data in social insurance are available from the following two sources: 1) *Statistical Data for Taiwan-Fukien Area* published by the Bureau of Labour Insurance for Taiwan-Fukien Area ROC (BLITF) and 2) *Statistical Data for Government Employees' Insurance* published by the Central Trust of China (CTC). As for the data of social assistance, the main source is *Statistical Abstract of Interior of the Republic of China* published by the Ministry of Interior (MOI). All these sources of data are published annually.

However, there is a small difference in the methods of the compilation between two social insurance statistics though it does not matter in most cases. The annual statistics of GEI are compiled on a monthly basis. Its annual statistics are the aggregate of twelve months' sub-totals of a year, so the episodes of hospitalisation which extend over two months will be doubly counted. So there will be a risk to under-estimate the cost of hospitalisation if we apply these figures without any adjustment (Kaim-Caudle and Chin, 29). Comparatively the compilation of the statistical data of GEI is much more detailed than that of LI, so the former is more useful and valuable than the latter.

The secondary sources for general background study of Taiwan are mainly

published by the Directorate-General of Budget, Accounting and Statistics (DGBAS) and the Council for Economic Planning and Development (CEPD), Executive Yuan. For example, many regular sampling survey reports such as *Social Indicators of the Republic of China*, *Yearbook of Labour Statistics*, *Monthly Labour Statistics*, *Report on the Survey of Personal Income Distribution in Taiwan* are published by the DGBAS, and many regular and irregular reports such as *Taiwan Statistical Data Book*, *Projections of the Population of Taiwan Area*, *Social Welfare Indicators*, *An Integrated Planning for Social Welfare System in the Republic of China* and *A Study on the System and Expenditure of Social Welfare in the Republic of China* are published by the CEPD. Their titles can clearly indicate the kind of data they provide for the general background. Comparatively, more planning functions are undertaken by the CEPD. Furthermore, basic demographic data in *Taiwan-Fukien Demographic Fact Book* which are annually published by the Ministry of Interior (MOI) and health data in *Health Statistics of the Republic of China* which are also annually published by the Department of Health (DOH) are both very important. Many academic studies by university scholars such as

- *The Social and Psychological Adjustments of the Elderly in Taipei City* by Tang, et al,
- *A Report on the Survey of the Needs and Manpower of Old People in Taipei City* by Bai, et al,
- *A Study on the Old Age Welfare of the Republic of China* by Hsiao, et al,
- *Tackling the Issue of Ageing of the Republic of China* by Chen, et al,
- *A Study on the Living and Medical Treatments of the Elderly in Taiwan* by Cheng,
- *Cost and Provisions of Health Services in the Republic of China on Taiwan: 1979-1981* by Kaim-Caudle and Chin,
- *Household Comparison, Extended Kinship and Reproduction in Taiwan: 1973-1980* by Freedman, et al

are also referred and used.

#### 4.3. The field Study

As mentioned before, the objective of the author's field study was to collective some crucial data which were not available in existing official and academic sources. Although the field study was of small scale due to the lack of resources, it still consisted of two parts:

1. a postal questionnaire survey of persons recently retired from the two main social insurance schemes, LI and GEI,
2. a small interview survey of persons retiring five years earlier.

In the postal survey, the author tried to collect the needed data to answer several pieces of vital information which had been raised during the previous year's desk study. They were as follows.

1. the ratio of insured wage to actual wage,
2. the reasons for choosing certain type of retirement payment,
3. the management of retirement payments,
4. the sufficiency of income after retirement,
5. the reasons for joining or not joining RGEI,
6. health situation and expenditure,
7. participation and activities,
8. special personal difficulties.

These questions are raised because of the following reasons:

- (1) We learn from the literature and the statistics that the insured wage is only a part of the gross earnings of the insured persons both in GEI and LI though they should be equal by law, ie, the ratio of insured wage to gross wage should be 1 or 100%. If the contributions can be collected according to gross earnings, the revenue of the systems could be greatly improved. And it is also a reliable way to increase the level

of benefits. So the ratio of insured wage to gross earnings is a vital point here, we want to not only make sure the size of the ratio but also make clear its reasons.

(2) Apart from some retirees retired from GEI and MI who may have the opportunity to choose an occupational pension, all old age benefits in GEI, LI and MI are paid in lump sum. At the point of production, a large amount of lump sum payment could be used to invest or to help children to study, to buy a house or to establish a business. But at the point of consumption, if retirement benefits are paid in lump sum, we will face a great uncertainty because we do not know our own life span. Even if we use it to invest, the risk of loss is still there. So lump sum payment is not seen as a satisfactory type of old age provision from many aspects. As there is an option between lump sum and pension in public occupational old age provision and the data of GEI retirees are also available, so it is important to understand the choices made between lump sum and pension payments for those people who have such a choice. And then we can examine that whether the option of pension is welcome or not.

(3) At present because all old age insurance benefits are paid in lump sum and the majority of public occupational benefits are also opted in lump sum, so the way and the efficiency of their management (ie, how do they deal with this big amount of money? eg, to save or to invest?) of retirement payments will be a crucial financial issue in retirement life. So what is its real function is our concern.

(4) Sufficiency of income in retirement is clearly an issue needing evidence. And it is quite clear that the actual social assistance level is too low to use as poverty line, so the figures derived from the author's survey might be seen as a subjective self-judged one for the retirees in Taiwan. In chapters 6 and 7, the author will discuss this issue thoroughly.

(5) The social insurance provisions in Taiwan are not only comprehensive, but also employment-related. Whenever an insured person retires and receives his retirement benefit, he will be excluded from the insurance system and lose his entitlement to all other benefits, including his health insurance services as well. As a man will need more health services when he grows older, so the need of health insurance should be



very urgent for the retired. The operation of voluntary health insurance for retirees in GEI give a chance to test this hypothesis. If the participation rate is not as high as we expect, then we have to explore its reasons.

(6)For the retirees in LI, there is no chance for them to join any social health insurance. They are responsible for all the medical expenditure by themselves, so their actual burden is our great concern.

(7)Apart from those who continue to engage in part-time jobs or even full-time jobs, the retirees will have plenty of spare time. If they do not find something interesting to do or to participate, they will suffer from a loss of identification or the sorrow of loneliness. This will be of great harm to their health and their lives. So we are interested to investigate this issue and see if it is satisfactory or not.

(8)Although every person and family has their own special difficulties, when they are common to the majority of people, then they become new social problems. We try to explore possible new social problems in the future through this question.

Facing these separate questions which can not be answered by the existing statistics and literature, they are meaningful and can be integrated together only under the general framework presented in the desk study. So a specific field survey to collect these data is required. As mentioned before, there are two parts in this field study: postal questionnaire survey and interview survey. Generally, the first priority in the postal survey design was to make those questions look simple and easy in order not to frighten the respondents, no matter what survey methods were used. My strategy was that all complicated concepts or abstract ideas were divided into several simple parts or real daily events in order to avoid ambiguity. For example, the ratio of insured wage to actual wage could be a complicated concept for many respondents, so I tried to collect this data by asking the respondents their actual wage, insured wage or contributions separately, and then to calculate their ratios by myself. Moreover, the health situation would be also a quite abstract or very subjective idea for many respondents. In order to make this question more objective and empirical, I

tried to judge this situation by the frequency of visiting a doctor. As for the other single idea questions, I just asked the respondents directly by using open-ended questions in order to shorten the length of the questionnaire. As for the interview survey, its questions were generally the same as the postal questionnaire, but more additional related intensive questions would be flexibly asked the interviewees. Especially about the questions of personal difficulties, every person would have different needs and difficulties. Moreover, more illustrative and qualitative material could be collected by this kind of survey.

As the focus of this study is the social security provisions of old people in Taiwan, the above questions would be more meaningful if the survey was applied to the whole population of old people. But because this study is a one-person-conducted study, the problems of sample-drawing and research financing would be formidable tasks for the author if such a survey was conducted. Moreover, because the samples must be drawn from the household registration offices where the population records are kept, and unfortunately those offices are locally allocated throughout the whole country, so it will be far from the ability of one person to conduct such a large scale survey. For feasibility, the coverage of survey was restricted to only retired persons because all old age benefit application forms of GEI and LI within ten years were preserved in their archives in Taipei City. However, when the samples were only drawn from LI and GEI, this would mean that: 1)the population was confined to people who were in the two biggest social insurance schemes, and 2)the minority of samples were not certainly up to 'old age' because there was a provision for early retirement which could allow some insured persons to retire at an age younger than 50 years.

After the coverage of population had been chosen, the issue of how to draw the samples was the next task. In theory the samples had better be drawn from all ten years' retirees, but there would be a problem of a high non-delivery rate due to death and moving if we did so, because we know that the moving rate of residence would be very high in recent years due to the rapid economic development and other

reasons. For example, in my interview research in 1986, the interviewees retired only 5 years earlier than the samples I actually drew, the non-delivery rate was as high as 45% in GEI and 56% in LI even after deleting the number of 'not at home', 'door-bell broken' and 'refusal'. It was 10 times more than the mail samples. In order to avoid such a problem, the coverage of samples was further restricted to only the retirees who retired in the latest year (ie, 1984), about 10 to 22 months before the time of the survey (October, 1985). Under such modifications, the feasibility or even the efficiency of research will be certainly improved. However we will confront new shortcomings by doing so. For example, some of the insured persons in GEI might opt to retire at the completion of 25 years' service, so many of them could be younger than 50 years old. For this group of retirees, they are definitely not 'old' within 15 years' period. So the samples might be biased by this group of retirees. Therefore, this factor must be taken into account in the interpretation of the data.

Apart from the issue of sampling coverage, the other important issue was to decide what kind of survey method should be used. As mentioned above, this is a single-person-conducted research without available research grant, so it was impossible for me to choose the interview method as the first priority to collect data though this method was more advantageous than other methods in many aspects. For example, the proper respondents can be reached; the completeness, accuracy and intensiveness of data can be guaranteed; and the problems of illiteracy and low cooperation rate can be overcome. However, the interview method is very expensive in several aspects: money, time and labour. Generally, they are interrelated to each other. In an interview survey, as there must be a qualified or competent interviewer to visit each respondent, we need to recruit such a group of interviewers. If competent persons are not available, then the work of training is necessary. So we need time to train them and money to pay them. After the interview survey is put into operation, the interviewers need money and time to travel to reach their interviewees who live separately in different places. If the number of interviewers is very small, it will take a

longer time to finish the interview (Young, Pauline V., 222-225; Adams and Schvaneveldt, 214). For this reason, the method that I might use had to be very cheap and labour-saving, so the method of a mail questionnaire was finally chosen because it was not only the most economical one but also the most efficient one (Moser, 176).

Nevertheless, the author realised that a mail questionnaire also had its own disadvantage. The biggest disadvantage would be that its response or return rate would be very low (Moser, 177), particularly if there was no gift or other rewards to thank the respondent for his co-operation. There are many reasons for non-response. The most objective one is illiteracy or low education. If most respondents belong to this group of population, this method will not be feasible. The next one is non-delivery, perhaps because the mailing address is not correct or the respondent has moved elsewhere or other reasons. However, more important reasons could be the subjective ones. People just do not like to take time to fill up and to reply to a mail questionnaire because they think it is meaningless and useless to do such things. It is particularly true if the sample is from the general population, rather than of a special group. In such cases, it is a convention to require the researcher to aim at a response rate of at least 30 or 40 per cent. Only the response rates of the samples of special interest groups could be reasonably high. In many cases, they could be higher than 80 per cent (Moser, 179). The second disadvantage is that the respondents might misunderstand the meanings of the questionnaire or forget to answer some very important questions. Apart from gifts or rewards, the only thing that the researcher can do to increase the response rate is to send a follow-up letter to remind and to persuade respondents. There could be some effects, but not certainly so (Moser, 182; Adams and Schvaneveldt, 206). Moreover, because the questionnaire is the only and the final source of data, and because the survey is generally anonymous, so if there is any incomplete reply, there will be no way for the researcher to make up such missing data. In order to avoid these disadvantages, the

questionnaire must be very short and simple. However, this measure would cause another new disadvantage: the collected data would be relatively limited.

The practical questionnaire survey was put into operation in October 1985 when I returned to Taiwan. Several things I had to do almost simultaneously. The most urgent one was that I had to apply for permission from the two insurance authorities of GEI and LI to draw samples from their archives by the name of the institute I serve. It took about one week to be granted permission. The second urgent thing was to choose a reliable printing shop to print the questionnaires, envelopes and an attached letter. Including proofreading, it took about three weeks to prepare three thousand questionnaires.

In 1984 although the number of retirees in LI (19,630) was almost three times larger than that of GEI (6,631), for the purpose of comparative study, I drew 1,000 samples from GEI and only 2,000 samples from LI. Both sets of archives were relatively conveniently located in suburban Taipei. However, the time available at GEI was shortened by two hours due to traffic conditions. Therefore, the task of sample-drawing took three weeks to complete. As the archives are confidential, I had no idea how the files were stored in the archives before I saw them. In GEI archives, every 50 cases were put into a hard file box. The total was about 133 boxes in 1984. I drew eight samples from each box by equal distance until I got 1,000 samples. In LI archives, each file box consisted of 100 cases. Eleven samples were drawn from each box until 2,000 samples were reached.

After the samples had been drawn and the questionnaires had been printed, many persons were invited to help me to write the addresses on the envelopes. Including the tasks of folding the questionnaires, inserting the questionnaires into the envelopes and sticking stamps on the questionnaires and the envelopes, it took another three days to finish this labourious work.

As soon as I posted these questionnaires, I returned to Britain in some haste at

the beginning of November 1985, otherwise my re-entry visa would expire. I trusted one of my colleagues to collect the returned questionnaires for me and asked him to post them altogether to me at the end of the year. I received the questionnaires in January 1986. After sorting out the results, the non-delivery rate was quite low. It was only 4.2% in GEI and 5.3% in LI. But the valid response rate was not very satisfactory. It was 41.3% in GEI and only 25.6% in LI though its total effective response rate was a little better (see Table 4.1). The result of LI being much lower than GEI could be explained by the fact that most retirees in LI were poorly educated or even illiterate. It could be a difficulty for them to answer a questionnaire by writing. If this hypothesis is true, it will mean that the illiterate or low educated samples are under-represented. Therefore, more prudence is needed in the interpretation of the data.

Table 4.1 The Numbers of Response and Non-Response, 1985

scheme	GEI	LI
Total population	6,631	19,630
Total samples	1,000	2,000
Total effective samples	958	1,894
Total returns	420	532
a) Invalid return	0	6
b) Late returns	7	8
Valid returns	413	512
Non-delivery	42	106
a) address unclear or invalid	22	59
b) address changed	15	45
c) deaths	2	2
d) go abroad	3	0
Delivered, Non-Responses	538	1,368
Total effective response rate (%)	43.8	28.1
Valid response rate (%)	41.3	25.6

As there was a high rate of non-response, it could cause a problem of the validity of the samples. Fortunately there were some corresponding data available from the official statistical data in GEI. A test of the validity of GEI samples was therefore



possible. The direct way to test the hypothesis of the likelihood or the similarity between my sample and population is to measure their location (or position) and dispersion (or spread). Because only the population means of age, insured wage, months of payment, and size of lump sum payment are available, so the test of the sample can be based on only these four variables. According to GEI statistics, the population means of the above four variables are: age, 60.73; insured wage, NT\$10,248; months of payment, 32.43; lump sum payment, NT\$332,341. And according to the author's research, the corresponding sample means are: age, 62.98; insured wage, NT\$10,280; months of payment, 32.63; lump sum payment, NT\$332,285 (see Table 4.2). In normal case, because we do not know population mean, so we use standard error as a test to justify sample mean as population mean. But in our case here, as we already know both sample mean and population mean, so we can use the fact that whether population mean falls within the confidence interval of sample mean or not as a criterion to test for the likelihood or the similarity between sample and population. If population mean falls within the confidence interval, we say that the null hypothesis is rejected, ie, the sample is similar to the population. If population mean falls out of the interval, we say that the rejection of null hypothesis is wrong, ie, we commit a type II error, the sample is in fact not similar to its population (Yeomans, 1968b:71-72). According to the probability theory of  $t$  distribution, when sample size is very large, generally larger than 120, then the  $t$  value at 0.05 level of significance will be 1.960 (see Yamane, Table 3 in Appendix). So the confidence interval of 95% should be between sample mean minus 1.960 standard error and sample mean plus 1.960 standard error. Finally, according to actual figures, we can get the confidence intervals as follows: age,  $62.55 < X < 63.41$ ; insured wage,  $10.03 < X < 10.53$  (in thousand); months of payments,  $31.94 < X < 33.32$ ; lump sum payment,  $321.31 < X < 343.26$  (in thousand). Based on above confidence intervals, we find that the population mean of age is lower than the interval, ie, the average age of sample is higher than that of population. This means that any interpretation of data related to age should take account of this bias. All other three variables fall within the



confidence intervals. They are considered as the direct evidence to support the similarity between sample and population.

Table 4.2 Means of Population and Sample in GEI, 1984

variable	population	sample		
	mean	mean	standard error	1.960 s.e.
Age	60.73	62.98	0.218	0.4273
Insured wage	(NT\$1,000) 10.25	(NT\$1,000) 10.28	0.130	0.2548
Months of payment	32.43	32.63	0.354	0.6938
Lump sum payment	(NT\$1,000) 332.34	(NT\$1,000) 332.29	5.598	10.9721

Source: 1)CTC, 1985:154-179

2)author's survey

As mentioned before, there are some vital limitations in mailing questionnaires. In order to overcome or at least to relieve these limitations, a small scale of interview survey would be very constructive in the interpretation of the questionnaire data, because additional intensive data and unexpected data could be discovered in the process of interview. After the questionnaire data had been processed and analyzed, in August 1986, I returned to Taiwan to stay another one month to conduct an interview research on the retirees who retired five years earlier than the previous questionnaire respondents in 1979 and lived in Taipei City. The main purpose of the interview is to get a general idea about the difference of the living situations of the retirees who retired five years earlier. It was not only a chance to observe the living situations of the retirees personally, but also a chance to collect more related data beyond the structured questionnaire. My plan was to interview 50 persons in GEI and LI respectively. The one sample drawn from each file box was the first one in each file box who lived in Taipei. I expected the moving rate of LI would be much higher than GEI, so I drew samples of 62 from GEI and 98 from LI. I hoped these extra samples

would be helpful in achieving my goal of 100 interviews in GEI and LI. But after the interview was conducted, I only successfully interviewed 16 cases in GEI and 25 cases in LI. The reasons I was unable to access the interviewees were as the following table (see Table 4.3).

Table 4.3 Reasons Unable To Access Interviewees

reason	GEI	LI
1.death	1	5
2.old house being demolished		
to build a new big building	5	12
to be extended as highway	2	4
to be a park	1	0
to be a car park	1	0
3.nobody at home when visiting*	14	17
4.door bell out of order (apartment)	2	0
5.went to the USA	4	5
6.moved to other place	11	18
7.address being renamed and recorded	3	11
8.refused to be interviewed	2	1
Total	46	73

Note: \* = to call only once in day time, no recall.

Based on this new sample, if a mailing questionnaire had been applied, its non-delivery rates would have been as high as 45% in GEI and 56% in LI after deleting the number of 'not at home', 'door bell broken' and 'refusal'. Compared to the actual non-delivery rates of 1985 questionnaire survey which were only 4.2% in GEI and 5.3% in LI (see Table 4.1), it was 10 time's difference in both GEI and LI though the samples were only 5 years earlier. So it was a correct decision to draw the sample from the latest year in the previous survey. However, delivery rate is certainly not equal to response rate. The latter will be much lower than the former. As for the response rate, there would not be much difference between these two samples though they were drawn from a different year.

#### 4.4. The Design of the Questionnaire

Basically the purpose of the questionnaire was to ask the questions raised in the previous section. But in practical design, more issues had to be taken into account. Firstly, the questionnaire should look short and simple in order not to frighten the respondents, then they might be happy to answer the questions. So for all questions with great variety of answers, I used open-ended questions; only very few questions with limited range of answers such as sex and marital situations, closed-ended questions were used. However, several questions were mixed (see Questionnaire). This measure greatly shortened the length of the questionnaire. If the questionnaire was completely in closed-ended form, it would have been at least five times longer by comparing with the coding list.

However, this modification also had its own disadvantages. The most significant one was that the respondents had to write more words. It would have frustrated many low educated respondents. Secondly, in order to encourage respondents to start to answer questions, the easiest questions were put at the beginning and those about sensitive questions such as source of income and amount of retirement payment were mixed with other less sensitive questions in order to reduce the resistance of respondents. And some open-ended and more difficult questions were put at the end in order not to frustrate the motivation of answering the questions. Thirdly, at the time of the survey, the compulsory occupational schemes had just come into force. Most retirees of LI were retired without such payments. Moreover, there was no option of health insurance for LI retirees, either. So these two questions were deleted from the LI questionnaires. That is, the 16th and 20th questions in the GEI questionnaire were deleted from LI questionnaire (see the GEI Questionnaire in the end of this chapter). This was the main difference of the questionnaires between GEI and LI.

In summary, the contents of the questionnaires could be classified into the following aspects:

1. personal basic data: resident area(1), sex(2), age(3), original province(4), religion(16);
2. family situations: marital status(11), number of children(12), forms of residence(13), housing(14);
3. insurance data: last employer(5), actual monthly wage(6), insured years(7), the number of months of old age payments(8), insured wage(9), the amount of old age payments(10);
4. occupational payments: the amounts and the reasons of choosing certain types of payments(16);
5. the management of retirement payments(17);
6. other sources of income(18);
7. the sufficiency of gross income(19);
8. the reasons of joining or not joining RGEI(20);
9. the main biggest items of expenditure(21);
10. social participation and activities(22);
11. health situations(23);
12. other difficulties(24)

The results from my survey is treated as one of several sources for my analysis of social security for the elderly in Taiwan. It might be useful to report where in the following chapters the results of my survey are discussed. This is done in Table 4.4.

Table 4.4 The Connection of Problems and Chapters

Problem (see pl05)	Questionnaire item	Chapter where discovered
1.The insured wage ratio	3	8
2.The reasons for choosing types of payment	4	7
3.The management of retirement payments	5	6
4.The sufficiency of income after retirement	7	6
5.The reasons for joining or not joining RGEI	8	7
6.Health situation and expenditure	11	6
7.Participation and activities	10	6
8.Special personal difficulties	12	6

---End of Chapter 4---

## The Questionnaire for GEI Retirees

1. Resident Area: \_\_\_\_\_
2. Sex: ☐ Male, ☐ Female
3. Age: \_\_\_\_\_
4. Original Province: \_\_\_\_\_
5. Last Employer: \_\_\_\_\_  
Position/Rank: \_\_\_\_\_
6. Monthly Wage: \_\_\_\_\_
7. Insured Years: \_\_\_\_\_
8. Number of Months of Old Age Insurance Payment: \_\_\_\_\_
9. Insured Wage: \_\_\_\_\_  
(or Monthly Insurance Contributions: \_\_\_\_\_ )
10. Amount of Old Age Insurance Payment: \_\_\_\_\_
11. Marital Status:  
☐ with spouse  
☐ widow/widower  
☐ divorce/separate  
☐ single/unmarried
12. Children:  
☐ yes; boys: \_\_\_\_\_ person(s), girls: \_\_\_\_\_ person(s)  
Is the youngest child an adult? ☐ yes, ☐ no  
Is the youngest child employed? ☐ yes, ☐ no  
☐ no(no children)
13. Forms of Residence:  
☐ living in family with children  
☐ living in family but not with children or no children  
☐ living in old people's home: ☐ public, ☐ private  
☐ other: \_\_\_\_\_
14. Housing Situations:  
☐ occupier-owned  
Is the house paid off? ☐ yes, ☐ no  
☐ children's house  
☐ government-owned house  
☐ rented house, monthly rent: \_\_\_\_\_  
☐ other: \_\_\_\_\_
15. Religion:  
☐ yes, the name of religion: \_\_\_\_\_  
☐ no
16. Types of Occupational Payments: (GEI only)  
☐ lump sum payment, total amount: \_\_\_\_\_  
☐ monthly payment, monthly amount: \_\_\_\_\_  
☐ combination of payment:  
\_\_\_\_\_/\_\_\_\_\_(ratio)lump sum payment, amount: \_\_\_\_\_  
\_\_\_\_\_/\_\_\_\_\_(ratio)monthly payment, amount: \_\_\_\_\_  
Why do you choose this type of payment?  
\_\_\_\_\_  
\_\_\_\_\_
17. How do you manage your retirement payments?  
(for example, favourite rate saving, buying housing, helping children to run a business, etc. )  
1) \_\_\_\_\_  
2) \_\_\_\_\_  
3) \_\_\_\_\_
18. Apart from retirement payments, do you have any other sources income?

- ☐ given by children, (☐ regularly, ☐ non-regularly )
- ☐ past savings
- ☐ property investment
- ☐ undertaking a new job
- ☐ other: \_\_\_\_\_

19. Depending on these income, is it enough for your living expenditure?

- ☐ enough
- ☐ not enough, it should be at least \_\_\_\_\_ per month

20. Have you joined RGEI? (GEI only)

- ☐ yes, reasons: \_\_\_\_\_, contributions: \_\_\_\_\_ per month
- ☐ no, reasons: \_\_\_\_\_

21. After retirement, what are the biggest items of your expenditure?

- 1) \_\_\_\_\_
- 2) \_\_\_\_\_
- 3) \_\_\_\_\_

22. What kind of social activities do you participate?

- 1) \_\_\_\_\_
- 2) \_\_\_\_\_

23. In the last year, have you ever seen a doctor?

- ☐ no;
- ☐ yes, name of disease: \_\_\_\_\_
- episodes: \_\_\_\_\_
- total expenditure: \_\_\_\_\_

24. Apart from economic problems, do you have any other problems that you expect our government to help you?

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## **CHAPTER 5**

### **GENERAL BACKGROUND TO SOCIAL SECURITY IN TAIWAN**

#### **5.1. Introduction**

The establishment and development of a social security provision greatly depends upon the general conditions and background of its society. Its relationship is just like seeds to soil. The quality of soil will restrict the growth of seeds. So are the conditions of a society to its social security system. In this chapter I will give a brief description of the general background of Taiwan according to the following aspects.

Firstly, the most fundamental background is its natural environment. Different geographical conditions such as climate, temperature, topography and natural resources will influence the needs and life of its people in different degrees. Secondly, the demographic conditions such as the number, age composition and dependency ratio also have a very close relation with the social security provisions of its society. When the proportion of old people become higher, the old age benefits expenditure will be more expensive and need more resources to finance. So an estimation of the proportion of old people in the future decades is made.

Thirdly, as social security is mainly a kind of income redistribution, either horizontal (ie, intra-generation) or vertical (ie, inter-generation), not only the level of economic development but also the structure and pattern of economy will greatly influence the pattern and the function of social security. Apart from the discussion of development and structural change of economy in Taiwan, the author also discusses the possible future economic reform which will provide new form of resources to finance an all-universal scheme.

Fourthly, all social legislations must be made through the political process. Apart from the introduction of structure and operation of the existing political system, the future possible reform in political system which will greatly improve the efficiency in

social legislation is also discussed in some length. This discussion is necessary because the management of the new branch of economic system in the future is the responsibility of government. Some legal background of social security in the constitution is also given. Lastly, the social situations will focus on family structure, housing, education and health services because they all have a close relationship with social security provision.

## 5.2. Geographic Situation

As a geographic unit, Taiwan is the biggest island of China. Including the nearby small islands, its area is about 36 thousand sq km. The island is located approximately 200 km to the southeast of mainland China. The position of the whole area on a map is between  $119^{\circ}18'03''$  and  $124^{\circ}34'30''$  of east longitude and between  $21^{\circ}45'24''$  and  $25^{\circ}56'30''$  of north latitude. The Tropic of Cancer crosses the southern part of the island. As it belongs to a semi-tropical zone, its average temperature is about  $19.1^{\circ}\text{C}$  in the mountain area and about  $21.8\text{--}24.5^{\circ}\text{C}$  in the plains. Except for mountain peaks, there is no snow in the whole area. As heating is not necessary in the winter, its living conditions are not so difficult as countries in temperate zones.

The topography of Taiwan island is mountainous. The mountain area where the altitude is over 500 metres is about 45% of the island's area. The arable land is only about one fourth. The majority of the population are living in the plains in the western part of the island.

Because the area is very small, natural resources are very scarce. The principal mineral reserves are only some coal, copper, natural gas, marble, limestone and dolomite. Apart from marble, production is quite limited. As for agricultural products, due to the limitation of the area of arable land, only rice, tea, sugar, vegetables, fruit, pork and seafood achieve surplus for export. Other agricultural products such as wheat, soy bean, cotton, corn, cattle and timber are far behind actual need. Most of them must be imported. The main resource of Taiwan is human capital.

### 5.3. Demographic Situation

In 1946, the year after Taiwan was returned to China, its population was about 6.1 million. Four years later, after a tide of immigrants from mainland China following the retreat of the nationalist government to Taiwan, the population rose to 7.6 million in 1950. Afterwards, the population was 10.8 million in 1960, 14.7 million in 1970, 17.8 million in 1980, and 19.3 million in 1985 (see Table A1 in Appendix). Compared to other larger countries, this population is not very large. But the area of Taiwan is so small, only 36 thousand sq km, that its density has become very high, increasing from 169 persons per sq km in 1946 to 535 persons per sq km in 1985. Among the countries with populations over 10 million, this density is the second highest in the world. This population pressure is particularly serious on account of the scarcity of natural resources in Taiwan.

Besides the growth of population, the structure of population is also undergoing change. Due to the rise of the standard of living and the improvement of health services, the crude death rate decreased from 1.82% in 1947 to 0.5% in 1985 (see Table A2 in Appendix) and life expectancy at birth has also increased about 20 years from 1950 to 1985. In 1985 it was 75.8 years for female and 70.8 years for male (see Table A4 in Appendix). As for the life expectancy at 65 years, it was 13.2 years for male and 15.6 years for female in 1983. On the other hand, due to the industrialisation and urbanisation of society, child-bearing turned to be a great financial burden; people realised the pressure of population and accepted the policy of family planning, the crude birth rate dropped from over 4% in 1940s and 1950s to 3% in 1960s and finally to 1.96% in 1984 though that is still quite high (see Table A2 in Appendix).

As the population of Taiwan is still very young, the number of births does not decrease very much though its rate has decreased a lot. The number of births per year fluctuated at about 0.4 million in the whole period of time. As migration is very small and the number of births is also very stable, the radical growth of population in

Taiwan is explicitly caused by the increase of life expectancy and the decrease of crude death rate. That is, more people live longer than before. However, before the 1970s the figure of old people aged 65 and over was still about 2% to 4% of the population. Even in 1985 this figure was only about 5%.

Although the total dependency ratio, the total of old dependency ratio and young dependency ratio, of Taiwan is quite similar to most western welfare countries, 53.0 in 1985, its old dependency ratio, the ratio of the number of the people aged 65 and over to that aged between 15 and 64, was only 7.7% and its young dependency ratio, the ratio of the number of the people aged under 15 to that aged between 15 and 64, was as high as 45.2% in 1985. The difference of these two ratios was much larger than those of many western welfare countries. The ageing index, the ratio of the number of the people aged 65 and over to that aged under 15, can also demonstrate the same phenomenon. Some welfare countries such as West Germany and Sweden may be high up to 80 to 90 or even more(see Table A6 in Appendix), but it was only 17.1 in Taiwan in 1985(see Table A3 in Appendix).

However, the percentage of old people will keep growing as more young and adult people can reach old age until the population reaches a stable pattern, ie, Zero Population Growth (ZPG) or quasi-ZPG. According to the definitions established by the United Nations, they define the population of the countries with more than 7% of their citizens aged 65 and over as 'aged', 4-7% as 'mature' and those less than 4% as 'young'(TU, 1982:9). As the proportion of old people aged 65 and over can be as high as 17% in Sweden, 16% in West Germany and 15% in Britain, this range for 'aged' population seems a little too broad. It would be better to consider the range from 0 to 5% as 'young', the range from 6 to 10% as 'mature' and the range of 11% and over as 'aged' population. If so, the population of Taiwan is still 'young', it is far from 'aged'.

As the population pressure is not only a big problem today but also in the future, a policy must be made to tackle it. A reasonable response to this problem is to aim at

Zero Population Growth (ZPG), that is, no more growth of population. As the growth of population is mainly determined by fertility, mortality and migration, the possible means of retarding the growth of population are to decrease fertility and immigration and to increase mortality and emigration. Theoretically, the increasing of mortality and emigration can have a very dramatic impact on both the growth and the age/sex structure of a population. However, the increasing of mortality is obviously undesirable and unacceptable by all people and the increasing of emigration will be opposed by other countries. Therefore, the only feasible way is to reduce fertility. However, fertility cannot be reduced too dramatically as the resulting unbalanced age structure of population will cause new problems for a society.

For most young population countries, ZPG is only a long-term goal. Of course they can pursue a ZPG-Now policy without regard to all side effects. For instance, the one-child policy of the mainland China today will face the problem that there will be too little working population to support their old people in the future. Or, to be more precise, a young couple will have to support four old parents. Therefore, this is explicitly not a desirable policy. The better way might be a ZPG-Later policy (Weeks, 172-178). But how can a ZPG-Later policy be implemented. That is an issue of implementation. In order to simplify this issue I would like to delete migration and restrict the discussion to Zero Natural Growth (ZNG) because in the case of Taiwan migration has been very small in the past twenty years. Thus ZPG-Later is on this assumption equivalent to ZNG-Later. ZNG means that the birth rate of society is equal to its death rate.

For a young population society its birth rate is certainly much higher than its death rate. A ZNG-Now policy will cause a great distortion of the future age structure. Therefore, a ZNG-Later policy is the better one. Theoretically the mildest way to approach a ZNG-Later policy is to adopt a Fixed Births (FB) policy, that is, keeping the births of each year under a fixed amount without regarding the number of women aged 15 to 49 and the number of deaths. Because the life expectancy of a society is

quite stable and cannot be increased unlimitedly, so it will reach a ceiling at a certain level at some length of time and then the death rate of a society will be equal to its birth rate gradually. For example, if the life expectancy of a society is 70 years at birth and its women start to have babies at the age of 20, then this society will reach ZNG within 50 years, with a FB policy.

Although FB policy is theoretically possible, there is a problem of implementation. Even after a given number of births has been fixed, how can this figure be allocated to thousands of couples or fertile women? Therefore, FB policy is a general theoretical idea, not a feasible practical measure. The more practical measure to approach the aim of FB policy is a 2-Children Per Couple (2C/C) policy or 1-Child Per Person (1C/P) policy. In Taiwan there has been a clear 2C/C policy for government employees since 1983. The government employees' child allowance is only paid for the children who are born in the first two pregnancies after 1983. A similar measure is also implemented in the tax system. Only the children in the first two pregnancies are entitled to tax deduction if they are born after that year. Explicitly its purpose is to discourage people from having more than two children per family. Explicitly, the effect of this policy depends very much on the amount of the tax deduction each child can be entitled to. Though the research evidence is not available, compared to about US\$5,000 per capita GNP in 1987, the amount of tax deduction, only NT\$32,000 (US\$1,143; US\$=NT\$28) per child in 1988, NT\$2,000 more than the previous year, is not very attractive, so I do not expect its effect is very significant.

Normally a 2C/C policy is sufficient because its aim can be achieved within a certain period of time if couples really have an average of only two children. But if there are too many cases of divorce, re-marriage and illegitimate births an 1C/P policy is more precise. 1C/P means that any adult person, either male or female, is entitled to have only one child, no matter whether he/she is married or not. However, 2C/C or 1C/P policy is only necessary for a society in which people have a strong preference to have more children, otherwise a different policy might be considered



and adopted. For example, a high standard family allowances may be applied to encourage more births.

Whenever a society reaches its ZPG state, its birth rate will be the same as its death rate though both of them may fluctuate slightly. Viewing the demographic statistics of some western welfare states, two countries, Sweden and Britain, are of near-ZPG. Both of them have birth rates of about 1.1% to 1.2% and death rates of about 1.1% (see Table A7 and A8 in Appendix). Especially in Sweden these rates have been quite stable for quite long periods. In the case of ZPG these rates may be considered as constants in demographic theory. Since ZPG is the long-run aim of Taiwan, the endeavour is to decrease the birth rate which at present is about 2% and to increase the death rate, 0.5%, until they are identical to the above constants.

As for the future population of Taiwan, it can be estimated by the population projections which were made by the Council for Economic Planning and Development (CEPD) in 1986. They were based on the mid-year population in 1985 and the sex ratio at birth of 107.5. As its assumption of mortality was derived from the average life expectancy at birth which, co-projected by the Department of Health (DOH) and the Ministry of Interior (MOI), will increase from 70.8 years in 1985 to 73.0 years in 2010 for male and from 75.8 years to 79.5 years in the same period for female for all projections, the projections are mainly the functions of the different assumptions of fertility (see Table A5 in appendix).

In the high fertility projection the state of ZPG will be achieved in 2035 at the population of 26.6 million. In medium one it will be achieved in 2027 at the population of 25.1 million. And, lastly, the low one will be achieved in 2022 at the population of 24.0 million. As the high projection assumes that the total fertility rate (T.F.R.), the total of age-specific birth rate of all years between 15 and 49 of females, will remain the same as that in 1985, 1,900, for the whole period, viewing the declining trend of the past twenty years, this assumption is probably untrue. So this assumption could



be safely rejected.

The medium projection assumes that the total fertility rate will decline 75 points every 5 years from 1,900 in the first ten years and then keep unchanging at 1,750 afterwards. Compared to the figures of the past 20 years, it could still be a little too high but quite reasonable. As for the low projection, its decline is the double of the medium one, even if it would be too low but still possible. Therefore, the practical choice could fall between the medium and the low. That is, the population could reach its ZPG state between 24 and 25 million in the time between 2022 and 2027. This is a very important element to be taken into consideration when we make any policy-decision on universal pension schemes in the future.

#### **5.4. Economic Situation**

##### **5.4.1. Some Indicators**

The economic achievement of Taiwan is generally considered as an economic miracle in developing countries. The most significant indicator is that the per capita gross national product (GNP) has increased from less than US\$100 before 1950 to about US\$3,000 in 1985 and to US\$5,000 in 1987 at current prices. According to a report in the *Economist* (21-27 February 1988), this figure will be expected to be up to about US\$17,000 by the end of this century. Of course, the recent rapid appreciation of the Taiwan dollar against the devaluated US dollar has greatly influenced this figure. The Taiwan dollar has increased from 39 dollars exchanging for one US dollar to 28 Taiwan dollars exchanging one US dollar in the last two years.

However, per capita GNP is not the only indicator to express the economic welfare of a country. Other indicators such as the ownership rates of certain family facilities might be helpful and even more precise because they can avoid the biases derived from the inaccurate exchange rate and the differences of purchasing power of the US dollar in different countries. For example, let us compare the per capita GNP of Taiwan with other developed countries in 1986 (see Table A5.8 in Appendix). The per

capita GNP of Switzerland is 5.2 times that of Taiwan, USA is 4.5 times, even Italy which is generally listed as one of the less successful of developed countries is also twice that of Taiwan. Does this mean that the economic welfare of these countries is really better than Taiwan to the same degree? Explicitly that is not certainly the case. Because not only is the price level in different countries different, but also the official exchange rate does not necessarily reflect real purchasing power in different countries, so their gaps could not be the same as the calculation. They could be larger or smaller. But what difference it should be is a question which requires further study.

Obviously, compared to income, economic welfare also has a very close relationship with consumption. It is clear that not all of our income will be used up for consumption, so the concepts of national income (either GNP or GDP) or personal income cannot precisely express the economic welfare of a country, a family or even a person. As national consumption is the main part of national income ---they are about 70% in Taiwan, 84% in USA and 84.6% in UK--- the indicators of concrete consumption items might be more effective because the amount of income could be very large but the amount of consumption might be quite limited. For instance, if we choose the number of telephones per 1,000 inhabitants as the indicator of economic welfare, the difference between Taiwan and other developed countries is unanimously less than that of per capita GNP. Furthermore, if we compare the figures of television sets between developed countries and Taiwan, the difference is even less than those of telephones(see Table A5.8 in Appendix). I would expect that the figures for food will be even smaller than those of television sets because food is more necessary in daily life. Unfortunately that kind of data is not available.

However, not all items of consumption are valid for this purpose. For example, the number of motor vehicles is a very exceptional one. The relative difference is much worse than for per capita GNP. Motor vehicles are so common in developed countries that, apart from Denmark, Japan and UK, the ownership rates of motor vehicles of

developed countries are even higher than that of television sets. That is, it is more common than television sets. In developed countries the price of an old second hand car could be as low as twice that of a new colour television set. So it is quite easy for most people to get one. But the situation is quite different in Taiwan. An old second hand car will cost at least five times more than a new colour television set. A new imported car will cost 1 to 2 times more than in the exporting country. This high price is caused by the government using a high-rate tariff to protect the infant domestic motor industry. Due to the bottleneck of technology and economic scale, the price of local cars is so high that they would not be able to survive if there was no tariff protection. It is true that the price of a car is generally much higher than a television. But if there is no distortion from tariff, the situation will not be so significant. This is the reason why motor vehicles are not a valid indicator to substitute for per capita GNP in Taiwan.

#### **5.4.2. The Development**

The economic achievement in Taiwan was achieved by a deliberate economic policy and economic strategy. Taiwan has implemented eight four-year economic plans since 1953. Roughly these eight plans can be further divided into three phases (CEPD, 1986c:27-29). In the first phase which included the first and second plans from 1953 to 1960, the object of policy was to establish labour-intensive light industries to produce consumption goods that had to be imported at that time. The government used every means such as foreign exchange, import control, and tariff exemption to encourage people to import capital goods, ie, machine and equipment, in order to establish domestic light industries. Because the object of establishing domestic light industries was to substitute for consumption goods, this stage was also named as 'import substitute'. In 1960 the percentage of the import of consumption goods decreased from 19.0% in 1952 to 8.1%. The average economic growth rate was 7.6% annually.

In the second phase which included the third and the fourth plans, the strategy

was to continue to expand the industries established in the previous phase. The object was to produce consumption goods not only for the domestic market but also for the international market. So this phase was also named as 'export-expansion' or 'export-substitute'. The percentage of industrial products exported increased from 40.9% in 1961 to 84.6% in 1968. The average economic growth rate was 10.4% annually. However, the rapid export-expanding growth finally caused the problems of labour-shortage and wage-increases. Therefore, the economic strategy in the third phase had to be changed from labour-intensive to capital- and technology-intensive industries. In this phase the policy was to call for a backward integration and a gradual move toward heavy industries in order to produce essential intermediate goods, capital goods and durable consumption goods which were originally dependent on import. In 1985 the percentage of the export of industrial goods continuously increased from 84.5% in 1974 to 93.8%, but the percentage of the import of capital goods decreased from 30.7% in 1974 to 23.8%. The average economic growth rate in this phase was 7.3% annually.

Before the implementing of the first four-year economic plan, there was also an internationally famous rural land reform in Taiwan. This reform was nominally based on the principle of the *Equalisation of Land-Right* in the third ism of *Tripeoplism* that was initiated by Dr. Sun Yat-sen and was formally prescribed in the constitution of the state. In theory there is a set of self-sufficient measures (which I will describe in detail in a separate subsection) to carry out a comprehensive land reform within *Equalisation of Land-Right*, but unfortunately the government in that time only adopted a revised measure to carry out the reform in order to distinguish from the land reform in mainland China. This reform was started in 1949 and finished in 1953. It could also be divided into three stages.

Publicly, this revised land policy was based on the existing private ownership system and enforced on only rural land. In the first stage, farm rent was limited to a maximum of 37.5% of the total main crop yielded in order to guarantee the tiller a

reasonable reward for his endeavour. All rent over that rate was illegal. In the second stage, public land formerly owned by Japanese nationals was distributed on easy terms, with preference given to the tenant claimants. In the third stage, landlords were obliged to divest themselves of their holdings above a minimal size and to sell out to their tenants under the Land-to-the-Tiller Act (Evans, et al, 1986). In the last two stages, the land was sold to the tillers at an official price that was equal to 2.5 times of the value of one year's main crop. The former landlords would get their price of land through the prescribed bank in the form of a land bond or the stock of public enterprises. Most landlords profited from stock ownership and became successful industrialists. On the other hand, the tillers also had to pay-off the cost by installment payment plan over 15 years. No tiller can get the land free, nor the landlord lose his wealth by the compulsory divestment of holding of land. In principle, there is no 'free lunch' nor un-compensated loss in this reform.

In addition the equal distribution of holdings of land not only greatly contributed to the equality of income distribution in Taiwan but also gave a strong stimulation to the growth of agricultural output. Whereas net real product of agriculture had increased at a rate of 3.8% annually between 1911 and 1940, it rose on average by 10% annually between 1951 and 1960. The prosperity of the agriculture economy demonstrated not only that the tillers worked hard but also that they applied more advanced agriculture technology. The latter in particular allowed the agriculture sector to release more labour-outflow to the industrial sector. According to the employment records, the rate of economically active population in primary industry was 56.1% in 1952 and reduced to 17.5% in 1985. The rate in secondary industry was 16.9% in 1952 and increased to 42.4% in 1980 and then started to decrease mildly to 41.4% in 1985. As for tertiary industry, the same rate was 27.0% in 1952 and 41.1% in 1985 (see Table 5.1). When examining the product of industry, it demonstrates a similar tendency (see Table 5.2).

Table 5.1 Employment by Industry in Taiwan

Year	Number 000 (=100%)	Primary Industry %	Secondary Industry %	Tertiary Industry %
1952	2 999	56.1	16.9	27.0
1960	3 473	50.2	20.5	29.3
1970	4 576	36.7	28.0	35.3
1980	6 547	19.5	42.4	38.1
1985	7 428	17.5	41.4	41.1
1986	7 733	17.0	41.5	41.5

## Note:

Primary industry = agriculture, forestry, hunting and fishing.

Secondary industry = mining and quarrying; manufacturing; construction;  
utilities: electricity, water and gas services.

Tertiary industry = commerce: commercial shop, hotel and restaurant;  
banking and financial, insurance, real estate;  
community and personal services.

Source: CEPD, 1987a:15-16

Table 5.2 Product by Industry in Taiwan

Year	NDP m (=100%)	Primary Industry %	Secondary Industry %	Tertiary Industry %
1952	14 572	35.9	18.0	46.1
1960	50 437	32.8	24.9	42.3
1970	177 077	17.9	34.7	47.4
1980	1 149 924	9.2	45.0	45.8
1985	1 887 687	6.9	45.2	47.9
1986	2 180 209	6.6	47.3	46.1

Note: NDP = National Domestic Product

Source: CEPD, 1987a:40-41

Examining the economically active population pattern in advanced western industrialised countries, their rates tend to be from 5% to 10% in primary industry, from 25% to 40% in secondary industry, and from 55% to 70% in tertiary industry (see Table 5.3). Therefore, in Taiwan the rate of primary industry is likely to keep going down. The rate of secondary industry is likely to remain stable or go down. But the rate of tertiary industry is likely to keep going up. That is, there are more people transferred from primary industry to secondary and tertiary industries. This change of economic structure not only means that there are more people than before in wage



employment basing on 'labour' rather than on 'land' or 'capital', but also means that the income of more people will become unreliable. Therefore, a more effective income maintenance scheme or social security provision is necessary.

Table 5.3 Employment by Industry in Different Countries

Country	Year	Total 000 (= 100.0)	Primary Industry %	Secondary Industry %	Tertiary Industry %
Australia	1985	6 646.1	6.23	27.36	66.40
Austria	1985	2 832.8	1.29	40.27	58.44
Belgium	1984	3 634.7	2.92	29.80	67.28
Canada	1985	11 311	5.22	25.49	69.30
Denmark	1985	2 553.4	6.61	27.77	65.41
France	1984	20 941	7.92	33.00	59.08
Germany, W.	1985	25 000	5.56	41.01	53.43
Italy	1985	20 507	11.20	33.63	55.18
Japan	1985	58 070	8.77	34.87	55.97
Sweden	1985	4 299	4.84	29.84	65.27
Switzerland	1980	3 012.2	7.25	39.48	53.27
UK	1985	24 071	2.58	32.35	65.07
USA	1985	107 150	3.12	28.27	68.62

Source: ILO, 1986:46-107

#### 5.4.3. Other main Characteristics

Social security provision must have a sound economic background as its basis, so the main characteristics of a society's economy such as economic structure and income distribution will have great influence on this issue. For many societies, as economic equality or equal income distribution is a desirable and even a cherished ideal, so a social security scheme is often used as an instrument to achieve this goal. However, in Taiwan the economic equality in the sector of primary industry or agriculture was achieved by the land reform as mentioned above. But in the sector of secondary and tertiary industries, this goal was achieved by the principle of *Regulation of Capital*. Under this principle, most large scale and monopolistic enterprises such as steel, petrol, electricity power, water, minerals, railway, airline, wine and tobacco are owned and managed by government, either local or central. As for the industry of the private sector, only about 2% are of large scale, the rest 98% are of medium and



small scale. Of course, the coverage or definition of medium and small enterprises is quite broad. All manufacturing, processing, handicraft and mining enterprises having a paid-up capital of less than NT\$40 million or all importer/exporter, commercial firms, transportation companies or other service enterprises having an annual sales less than NT\$40 million are classified as medium and small enterprises. Explicitly most medium and small enterprises belong to secondary and tertiary industries. As the product of the secondary and tertiary industries was up to 93% of national domestic product in 1985 (see Table 5.2), it means that more than 90% of these products are produced by medium and small enterprises. Because the possession of these medium and small enterprises belong to thousands of owners or families, this factor has greatly contributed to the equality of income distribution in Taiwan. However, from a negative point of view, the dominance of medium and small scale enterprises will have the following two disadvantages in economic activities. Firstly, the research and development of the economy will be greatly restricted due to the lack of resources; this restriction will make the further development of these enterprises difficult and impossible. Secondly, the life span of (many) small enterprises will be more vulnerable and uncertain due to strong competition, this will in turn lead to the income insecurity of the employed of these enterprises, so a provision of social security is necessary.

The reasons why large scale enterprises are not so popular in the private sector in Taiwan can be attributed to many factors. Apart from the above institutional reasons, the other important one is that Chinese culture always encourages people, especially males, to create their own businesses. Most enterprises are owned by one person or one family or at most a few people. As the competition is so strong they cannot offer a good pay to their employees, let alone long-term security benefit. Therefore, most competent cadres will leave their employers and create their own businesses when they become experienced and have accumulated sufficient capital. This cultural factor greatly restricts the growth and the scale of private enterprises. The natural result is

that numerous small enterprises or businesses lead to the equality of income distribution. Besides, more small enterprises also means more self-employed or employers employing less than five persons, and more self-employed means more unpaid domestic workers because most of them are working for small family businesses. This is a very important reason why there are so many people excluded from the existing social insurance system. When we plan to extend the coverage of social security in Taiwan, we have to take account of this factor.

Another important economic characteristic that is closely related to social security is savings. As the economy grows, the rate of savings also grows rapidly. In 1952 the ratio of net savings to national income was 5.2% and the gross savings in gross national product was 9.2%, but in 1985 their rates increased up to 30.7% and 33.5% respectively(see Table 5.4). But in western industrialised countries these rates are quite low because there are good social security provisions to protect their people from all kinds of contingencies, especially old age. The high rate of savings in Taiwan demonstrates that the social security measures are far from satisfactory.

Table 5.4 Savings in Taiwan

Year	Net Savings in NI	Gross Savings in GNP	Average Propensity to Save in PDI
1952	5.2	9.2	2.5
1960	7.6	12.7	6.3
1970	23.8	25.5	16.5
1980	32.7	33.0	18.5
1985	30.7	33.5	22.8
1986	36.1	37.8	27.4

Note: PDI = Personal Disposable Income

Source: CEPD, 1987a:56, 59

#### 5.4.4. The Blueprint

Dr. Sun's third ism of *Tripeoplism* provides a criterion for the economic construction of a society which has inspired much of the policy of Taiwan. Its main idea is to provide an affluent and equal economic welfare to all people of the society.

Because the most distinctive principles in the third ism of *Tripeoplism* are the *Equalisation of Land-Right* and the *Regulation of Capital*, and because the *Equalisation of Land-Right* only deal with one of the productive factor, land, and the *Regulation of Capital* only deal with another one factor, capital, so in this subsection we will discuss only these two productive factors, land and capital, though there are four factors in economic activities. here we discuss land first.

According to Dr. Sun, land should collectively belong to or be owned by the whole people of a country. No private ownership of land or taking rent from land is allowable. But, on the other hand, in order to survive all people have to live on land and to produce on land, so the right to use land should be equally open to all people of the country. No one should be deprived of it and no one should have priority or privilege to use any piece of land unless he/she is proved as the person who can use that land most efficiently. Only when the use of land is distributed to the person(s) who is(are) the most efficient can the contribution of land to economic production reach its optimum or maximum level. But the question here is how can land be distributed to the most efficient person(s) or how can the state know who is(are) the most efficient person(s). The way to achieve this objective is the principle of the *Equalisation of Land-Right*, or more precisely, the *Equalisation of Land-Use* (Chin, 91-5).

In the administration of land-distribution, the only tasks that government have to do are: 1)to make a plan of land use. For example, where is rural land? Where is urban land? In the field of urban land, where is the business area? Where is the residential area? Where is the green area? Where is the industrial area? 2)to promulgate a fixed and differential tax rate table for the use of different land. For example, a lower rate for residential area and a higher rate for business area. After these two tasks have been prepared by the government, then the use or the distribution of land is open to the public for free competition like an auction. For any piece of land, as long as a person can offer the highest price (This price is like a deposit) and pay it to the

government, then he can win the right to use that land. Because the tax rate of different land varies, so when the rate is high, the land-user will have to lower the price of land in order to reduce the tax burden; on the contrary, when the rate is low, the land-user will have to raise the price of the land in order to win the right to use it. Therefore, if the rate of residential land is low, though families or households have to pay a higher price or a longer period on instalments to win the right to its use, it is in fact a way to save or to accumulate wealth. A higher price will in particular have the function of encouraging stability. For land in a business area, if its tax rate is high, then its tax of land-use will be heavy, and then the land-user will have to lower the price of the land in order to reduce the tax burden. In turn, a lower price of land will enable them to have more capital to invest and have the function of encouraging the takeover and the use of land.

But one question nowadays is that all land has been occupied by certain 'land-owners', how can these lands be redistributed again? There is also no problem for this. This problem will be easily solved by exempting the deposit in the first auction. That is, all 'land-owners' are allowed to report the price of their land to the government at any level and need not pay the price. Afterwards, if the land-users find that they offered a price too high and want to reduce the price in order to relieve their tax burden, then there will be no refund from the government because their first deposits are exempted. But for urban land-users, if they want to increase the price to keep on using their land, they have to pay the difference to the government immediately; for rural land-users, if the added value of land is due to their own efforts, then they need not pay the difference, but they need to pay tax according to the new higher price, otherwise the government will not protect their new price.

In summary, because the government can only fix a standard rate of tax, so the actual total cost of land is in fact determined by land-users by reporting different price of land, not by the government. We need not worry if the tax on land is too high or not. We also need not worry if this will discourage or suppress

land-consuming industries or not, because those industries can be moved to a cheap land area. We even need not worry if there is any unused land because when a land is unused, its price will go down, and down to a level that can attract new land-users. Furthermore, we also need not worry that land-users or 'land-owners' will report their price too low in order to avoid the tax burden, or report their price too high in order to get non-earned capital, because there will be another force to balance this tendency. For example, if they report their price too low, then other people will compete for the use of their land; and if they report their price too high, they will have to pay unnecessary tax. Finally, all people will voluntarily or involuntarily adjust their price equal to the actual value of the land.

After all land has been distributed, the government will register their price publicly, and then the government will have the obligation to protect all land-users, both their right to use and the price of the land. Correspondingly, the land-users also have the obligation to pay tax according to the price (or deposit) they report. The theory is that the person who can offer the highest price is considered as the one who can use the land most efficiently, so the government authorise(s) him the right to use it. After a prescribed period of time, whenever there is any person or enterprise unit that can offer a higher price to use that piece of land, then the government will expropriate or buy back that land with the same price that the current land-users have deposited unless they also offer the same or higher price to compete for the use of that land.

In theory the price of land must be decided by its actual contribution or productivity. Otherwise, if a land-user over-estimates the price, he will finally be unable to pay the tax of land-use; but if he under-estimates, the other person will compete with him. Therefore, only the most efficient land-user can keep on using a land without any competitor. Only through this policy, will the most efficient person use the most expensive land, and the less efficient person use the less expensive land. Under this situation, all land is used in full efficiency. And this will enable the government to receive the maximum revenue from land.

But, unfortunately, the revised land policy nowadays in Taiwan deviates quite far from the original blueprint of Dr. Sun. Firstly, the land system totally remained as private ownership mainly due to the political reason against the Communist mainland where land is totally nationalised. The landlords generally have the absolute sovereignty over their land. So the transfer of the management of land is very difficult and expensive. It is impossible to expect that all land is used efficiently. Secondly, the government withdrew the right of all existing landlords to decide their land value by their own self-judgement, because at the beginning all landlords would tend to under-report their land value in order to pay less tax. On the opposite side, in order to levy more tax revenue from land, the government required all landlords to report their land value according to the differential official price within a difference of 20%, otherwise their land will be bought away by the government if the reported price is less than 20% of official price. Under this circumstance, because the price of land is in fact decided by the government, so, by logic, the government have to sacrifice the right to tax away the increments of land value, or the government will be criticised as exploiting the landlords. Finally all increments of land value go to the landlords. Moreover, this revised policy has caused a great difference between registered price and market price owing to tax avoidance. Thus the government failed to levy real tax revenue from land.

In summary, under the existing system, many problems such as 1)land is inefficiently used and 2)most of rent is in injustice arrogated by the landlords are inevitable. According to Dr. Sun, land is publicly owned by the whole people of a society, so land will be one of the sources of public income to finance our social security scheme. Of course, this might be still not sufficient to finance a vast universal scheme from land, according to Dr. Sun, we also have another income source from public capital, ie, public owned enterprises. So we pass on to discuss this factor.

As for capital, its characteristic is quite different from land. Land is naturally



existing. No one can create land. Because land is not the result of human effort, so in theory no one should have the right to possess any piece of land. But for capital, no matter what its form, it is definitely a result of human effort or creation. So its ownership should belong to the people who create it. Any other person has no right to share or to arrogate it. It is simple justice that the creator should have the absolute sovereignty over all his creatures, not only capital. So it is explicitly that the *Regulation of Capital* has nothing to do with the ownership or the possession of capital, it is only to regulate or to restrict the use of capital.

Under the *Regulation of Capital*, the main task that government has to undertake is to make a division between public enterprises and private enterprises according to the following two criteria: 1) the degree of monopolisation and 2) the degree of publicness. In turn the degree of monopolisation is determined by another two conditions: a) the nature of the enterprise and b) the minimum scale of economy. Because the operational definition of monopolisation can be defined as the number of enterprises in an industry, so when there is only one unit of enterprise in an industry, it is the highest degree of monopolisation or 'monopoly'. When there are only a few units of enterprises in an industry, that is 'oligopoly'. And, lastly, when there are many units, it is 'competition'. As for the degree of publicness, it is decided by another two factors: a) the number or percentage of consumers in the population, and b) the degree of collectivity or undivisibility of consumption of the goods. The higher the percentage and the collectivity, the higher the degree of publicness.

In theory the strategy to promote the economy is to increase the number of enterprises in an industry in order to increase its competition and efficiency. But in practice, for many enterprises or industries such as electricity, running water, railway and communication utility, their number of enterprise units should be one or as few as possible in order to avoid waste and to meet the minimum economic scale. So it is certainly uneconomic for these kind of enterprises to have two or many units. If the products of these enterprises are also of a high degree of publicness, especially if



they are highly demanded by the majority of the people, then these enterprises had better to be nationalised in order to avoid unjust exploitation from monopoly.

Although, in both socialist and capitalist countries, the experience of most nationalised enterprises are inefficient, money-losing or even bankrupt if there is no government subsidy, however, it is not the fault of nationalisation or monopoly. The real reason for the inefficiency and bankruptcy of nationalised enterprises in those countries is that their governments manage those enterprises based on political principles and methods rather than economic ones. For example, for most government-owned enterprises in Taiwan and China, they have no right to adjust the price of their products; they have to employ too many unnecessary staff and workers; they even have no right to fire the inefficient workers. Under such conditions, no nationalised enterprise will be able to gain. Under the *Regulation of Capital*, all government-owned enterprises must be managed by the economic principle. All enterprises are free from political pressure except the supreme command: to make profits. For all government-owned enterprises, they are definitely able to make profit due to the following reasons. Firstly, they are all of high degree of monopolisation, so they can be managed by the economic principles of monopoly either to make maximum profit or to produce maximum production under the preconditions of self-sufficiency, available economic resources and other basic requirements raised by democratic political authorities. Secondly, because they are all of high degree of publicness, so their consumers and the market demand of their production are guaranteed. Thirdly, although the external competition is reduced by higher degree of monopolisation, it can be substituted by internal competition. As long as the promotion and rewards of their managers and staff are judged only by their merits, then the internal competition can be created and their efficiency will be finally guaranteed.

Moreover, the running of large-scale nationalised enterprises is a highly professional task, so not only the highest chairman or president and general manager

but all staff and workers must be qualified specialists and technicians. Because the status of nationalised enterprises is like special governmental agencies, so their operations are subject to the second 'ism' of *Tripeoplism*. That is, the success of nationalised enterprises is dependant on not only the democratic political supervision, but also the efficiency of government. This will be discussed in next section.

## 5.5. Political Situation

### 5.5.1. The Legitimacy in Competition

Taiwan is a very special political entity in the world. Since it was established in 1912 with the name of 'Republic of China' representing the whole of China, its government has experienced several stages of development. In the last stage its government retreated from the mainland to the island of Taiwan in 1949. As this nationalist government had governed the whole of China for several decades, it proclaims that it is the only legitimate government which can represent the whole of China and that the communist government on the mainland today is only a temporary rebellious regime. The highest mission of its government is to develop and construct Taiwan as a powerful base and then to re-unify China by *Tripeoplism* (The Three Principles of the People) and to implement this 'ism' throughout the whole country.

Taking the opposite line, the communist government on mainland China also proclaims that it is the only legitimate government representing the whole of China. It also has tried to conquer Taiwan by every means. In the past it tried to conquer Taiwan by force but it failed. Now it tries to persuade Taiwan to accept the proposal of 'one state, two systems', ie, it is the central government but Taiwan is only a special local government, to re-unify China as an united country. Due to the fact that not only is the democratic degree of political life but also the economic achievement in mainland China are far behind those of Taiwan, there is no point for Taiwan to sacrifice its successful policy to adopt the inefficient one of mainland China. However, at the present stage, because Taiwan does not have formal diplomatic

relations with most countries in the world, it has a very disadvantageous status in international society.

### 5.5.2. The Blueprint

As all social security legislation has to pass through political procedures, an understanding of the present political system and its operation will be helpful and necessary. Many foreigners and even local people find it quite difficult to understand why Taiwan has such a special style of government. For example, "What is five-power government (or quinquartite government)?" and "Why do you have such a type of government?". In order to explain this problem more clearly, we have to trace back to the thought of Dr. Sun Yat-sen, the founding father of the Republic of China.

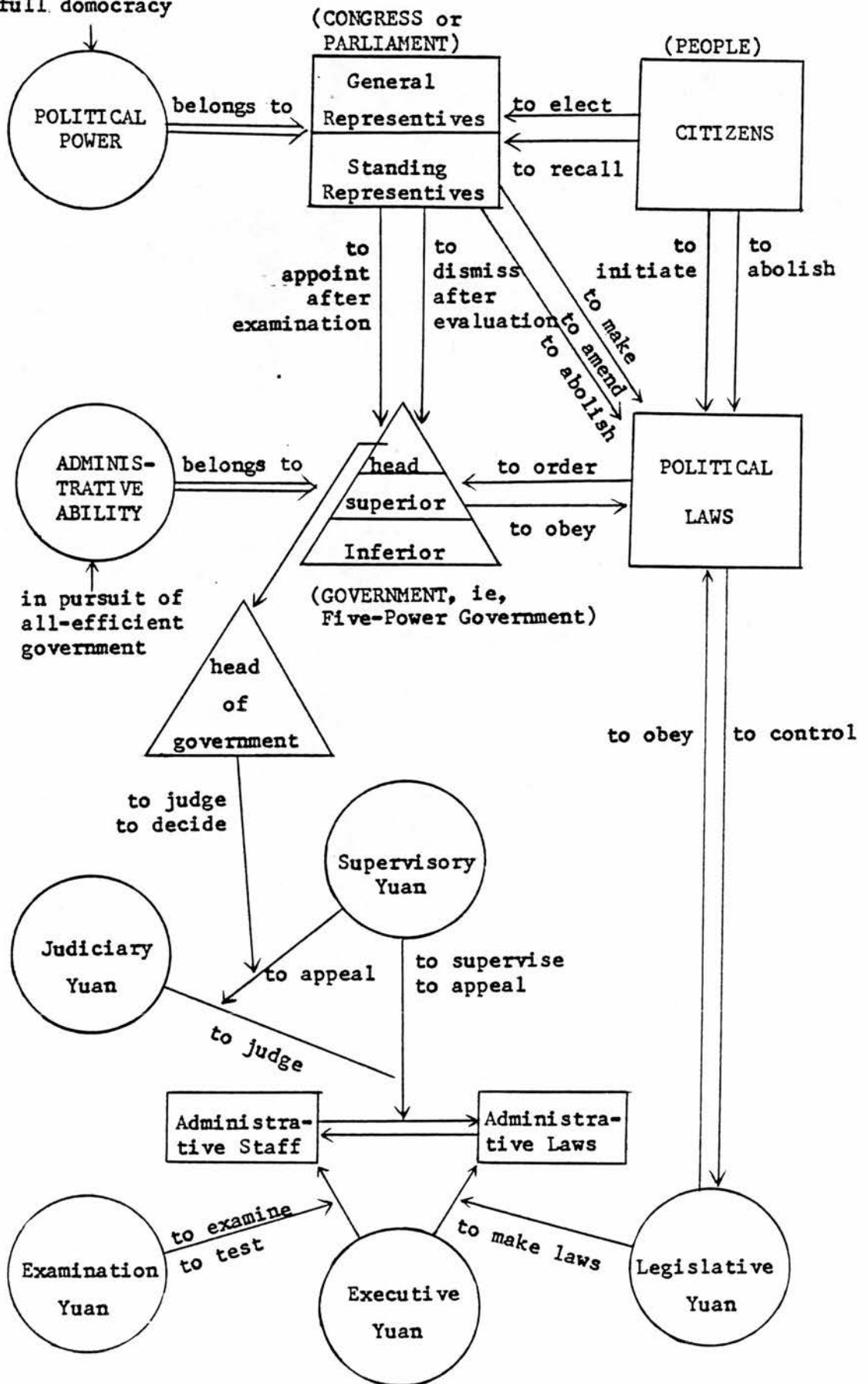
According to the thought of Dr. Sun, there are two fundamental objectives in the political life of the people, ie, to construct a full-democratic political representative body and to build up an all-efficient government. Dr. Sun strongly proposed that if we wanted to fulfil these two objectives simultaneously, we had to separate clearly the administrative power of government from the political power of the people. That is his famous *Theory of Separation of Political Power and Administrative Ability*. Under this theory, no staff-member of government should come from election. They should come from appointment after an examination. And no elected representative should play a role in government. After the separation of power and ability, there follows a separation of political laws and administrative laws. Only political laws which including problem-finding, policy-formation and policy-making to define the objectives of the government will be made by the congress/parliament/national assembly which is organised by the representatives elected by the people/citizens. As for administrative laws which mainly deal with the selection, adoption and application of technology to achieve the prescribed goals of the government, they are in logic made by an independent part of the government based on the corresponding political laws. By these administrative laws, the government carry out the political policies which they present in the form of political laws made by congress. In brief, the laws of

'what' are made by a political representative body and the laws of 'how' are made by government. 'What' is about value-judgement and 'how' is about expertise. As this new political representative body will not let the representatives interfere with the administrative affairs and interest, it will help them play their roles for the people more impartially (Chin, 57-60, 69-74).

In theory the five-power government is hierarchical, ie, both central and local governments are functionally divided into five independent parts. In central government, it includes five *yuan*s, ie, Executive Yuan, Legislative Yuan, Judiciary Yuan, Examination Yuan and Supervisory Yuan. Actually it is an Executive Yuan-centred government because it is the Executive Yuan which carries out the political policies of congress. If things are like this, what are the other four *yuan*s used for? As the purpose of Dr. Sun was to establish an all-efficient government, Executive Yuan needs the Legislative Yuan to make all professional administrative laws or statutes according to existing political laws and needs Examination Yuan to select able or competent experts as its staff. All staff must have their qualifications confirmed by the Examination Yuan or they cannot be appointed. Up to this step, it maybe still cannot guarantee the efficiency of Executive Yuan because the appointed officials may not be active or responsible though they are professionally qualified. So there should be a Supervisory Yuan to supervise these staff if they obey the laws or not, or if they neglect their duties or not. Whenever the Supervisory Yuan finds that executive staff offend or deviate from the laws, or only do not work as well as expected, the Supervisory Yuan will appeal to the Judiciary Yuan for trial and judgement. If the Supervisory Yuan also finds the judgement of the Judiciary Yuan is not impartial, this Yuan can further appeal to the President, the Head of Government, for the final decision. Under such a chain of 'check' design (Note: not as the mutual check and balance in western democratic countries), the government will certainly be efficient (Chin, 75-80).

Under five-power government, because the political laws of 'what to do' are made

Figure 5.1 Separation of Political Power and Government Ability  
in pursuit of  
full democracy (CONGRESS or



by the congress or parliament of the people and the administrative laws of 'how to do' are made by the legislative yuan of the government, and because there is already a chapter of social security in the constitution, there are not many problems of value-judgement left for the political body to make, so the task of social policy legislation is mainly the obligation of Legislative Yuan. These laws will be prepared in a very good form because the technical part is prepared by the most excellent experts. Under this special design, many unnecessary or arbitrary changes of social security schemes can be avoided.

### 5.5.3. The Problems

Although the political design may be theoretically consistent, the representatives of the National Assembly 42 years ago did not really understand the design of Dr. Sun. They changed the character of the Legislative Yuan and Supervisory Yuan from a governmental body to a representative body. They prescribed that the members of these two yuans be elected by the people, not appointed after examination. Therefore, the five-power government in the present constitution of the Republic of China is not in accordance with Dr. Sun's thought any more though they have the same title.

According to the constitution, the National Assembly still preserves its power of amendment of the constitution. It also preserves its power to elect and recall the president and vice president of the state and to initiate or veto the laws made by the Legislative Yuan. But the latter has never been used. As the Legislative Yuan and Supervisory Yuan are also prescribed as representative organisations, the power of political law-making of the National Assembly is shifted to the Legislative Yuan and its power of impeachment is shifted to the Supervisory Yuan. The other special point is that the power of examination is still independent of the Executive Yuan as an independent power. Only this point had been in accordance with Dr. Sun's design.

Furthermore, according to the present constitution, the president, the head of state



and government, is elected by the National Assembly every six years, and the National Assembly is elected by the people also every six years. In Dr. Sun's thought, this president can appoint all five presidents of the five yuans. But now, the appointment of the president or premier of the Executive Yuan must be based on the confirmation of the Legislative Yuan and the appointments of the presidents of Judiciary Yuan and Examination Yuan must be based on the confirmation of Supervisory Yuan in order to balance the powers. But the presidents of Legislation Yuan and Supervisory Yuan are mutually elected by their elected representatives. Even so, in theory, there will be no serious problem in the operation of this special political system. There will not be much difference from western democratic countries because the sum of National Assembly, Legislative Yuan and Supervisory Yuan is equal to the congress or parliament of western countries. The problem is that all representatives of these three parts of congress elected from mainland China 41 years ago have not been able to be subject to fresh elections since that time. The problems of ageing and the legitimacy of their representation has caused widespread concern and debate, but no easy solution can be reached.

Firstly, as for the problem of representation, because the government needs the representation of mainland China, so the representation of these representatives would not expire after their 3-year or 6-year tenure. The tenure is 3 years for the representatives of Legislative Yuan and 6 years for those of National Assembly and Supervisory Yuan. It may be an expedient way to let them undertake their tenure until the next election. But after several decades' extension of their tenure, their representation is really in question. It is explicitly contrary to the general principle of democracy. Their tenure should not be continued, but the political interest on mainland China is not easy to give up.

Secondly, on the problem of ageing, most representatives of these three parts of congress are now very old and unable to perform their duties. This matter greatly influences the development and the quality of political life in Taiwan. This problem still



remains there unsolved. Although there is a compulsory retirement age of 65 years for all government employees, it is not applicable to a special rank of officials, not to mention the political representatives. If we could have a law to prescribe all special rank of government officials and elected representatives to retire at age 70 or even 75 years, this problem would be resolved at once. But this approach is never possible because the power of law-making is in their own hands. However, time will solve this problem because there are no replacements after their death. After 5 to 10 years, when all these old representatives elected from mainland China have passed away, there could be a chance for the constitution being amended according to Dr. Sun's theory, then, a great political development can be expected. Its progress could be even greater than the economy.

As western democratic countries do, the government of Taiwan is operated by a party system. Nowadays there are three registered parties, National Party (Kuomintang), Youth Party and Democratic Socialist Party and many other un-registered parties such as Democratic Progressive Party and Labour Party. As the National Party which was founded by Dr Sun Yat-sen is the founder party of the Republic of China, though the government retreated to Taiwan, this party is still the dominant ruling party in Taiwan. In a general election the ruling party can win about 70% of votes. But actually the ruling party can hold about 90% of seats in all three parts of congress, both National Assembly, Legislative Yuan and Supervisory Yuan, because all representative members who were elected 40 years ago from mainland China are still holding their seats. Under such circumstances, the policies of the ruling party are very easy to be implemented. But the quality and the efficiency of law-making are in question.

#### **5.5.4. The 'Social Security' in the Constitution**

As the constitution was promulgated by the National Assembly of the Republic of China when the nationalist government still governed the whole of China. So this constitution is a very important token of Chinese democracy. This constitution

prescribes not only the rights and obligations of people, the structure of political system, but also the basic national policies on defence, diplomacy, economy, culture, education and social security. Therefore, the provisions of 'social security' in this constitution are the legal basis of social security policy today. There are six articles in this independent section of social security in the constitution. They are as follows:

- **Article 152.** The State shall provide suitable opportunities for work to those persons who have the ability to work.
- **Article 153.** The State shall enact laws and carry out policies for the protection of labourers and farmers so as to better their livelihood and improve their productive skills.
- Special protection shall be provided for women and children doing manual labour, according to their age and physical conditions.
- **Article 154.** Capitalist and labour shall act in accordance with the principles of harmony and cooperation for the development of productive enterprises. Conciliation and arbitration of disputes between capital and labour shall be prescribed by law.
- **Article 155.** The State shall establish a system of social insurance to promote social welfare. To the aged and the physically disabled who are unable to make a living, and to victims of extraordinary calamities, the State shall provide appropriate assistance and relief.
- **Article 156.** The State, in order to consolidate the foundation of national existence and development, shall protect motherhood and carry out a policy for the promotion of the welfare of women and children.
- **Article 157.** The State, in order to improve national health, shall establish extensive services for sanitation and health protection and a system of public medical care.

Explicitly article 152 is about employment services; there already is a comprehensive employment service in Taiwan. Article 153 is about labour welfare; the Labour Standard Law was promulgated and enforced in 1984. Article 154 is about industrial relations; besides the trade unions of different levels, there is an official Labour Commission in central government and a formal private association of industrial relation to deal with this matter. Article 155 is about social insurance and social assistance; there are several schemes to provide such protection. This is the highest legal base of social security in Taiwan. A thorough discuss will be made in chapters 7

and 8. Article 156 is about child and women (motherhood) protection and welfare and article 157 is about public health service. Public health service provides only for military servants (including their dependants) and veterans.

Explicitly, because the boundary of 'social security' prescribed in this constitution had included employment, health and social security, so its coverage was actually the same as the Beveridge Plan but without a sense of planning. According to the meaning from the context, as employment, family (motherhood and childhood) and health were the responsibility of the state, so they could be rationally interpreted as Beveridge's 'front tier' (or preconditions): full employment, public health services and family allowance. Therefore, the design of social security in Taiwan could widely refer to the Beveridge Plan. However, as the designing of a social security system includes both value-judgement and expertise, in the view of the special political doctrine in Taiwan the law-making of social security can also be divided into two parts: the decision-making of value-judgement belongs to the political representative body and that of expertise belongs to government. Under this arrangement, then many technical errors such as the provision of social insurance benefits without adequate contribution-records in the post War British Labour Government and the provision of funded social insurance with a deficit in Taiwan can be avoided.

For example, as the author suggested in chapter 3, a simple way to make the labour division between political laws and administrative laws in social security legislation can be based on the equation: the total benefits expenditure (B) must be equal to the total taxation revenue (T). That is,

$$B = f(T).$$

If the political representative body have the priority to decide only one side of the equation, either B or T, and the other side is decided by government experts according to actuarial calculation, then the balance of this equation will be easily able to achieve.

If a 'back to Dr. Sun Yat-sen' political reform can be carried out in the near future in Taiwan, then all social security laws will be rationally made by this two-step law-making procedure. They will not only be highly efficient, but also highly Chinese characteristic in style.

## **5.6. Social Situation**

### **5.6.1. Family**

The family is a very important part of Chinese society. Unfortunately there is no official or academic census of families. here I try to use the number of households in place of family because all households in Taiwan are officially required to register their households according to their residence. That is, a family here socially and culturally means an adult, married or un-married, with his/her own children, parents or even grand-parents. But for a household, it officially means the actual members who are living together, occasionally it might include brothers or sisters or other relatives living together; but it would exclude even children or parents if they are not living together. So the concepts of 'family' and 'household' do not certainly coincide with each other in all cases. However, even though many children do not live with their parents, they are actually responsible for supporting their parents. So, in fact 'family' is still a valid tool in the analysis of social security provision in Taiwan. Moreover, in theory, a co-resident family seems to be more efficient than that of a separate-resident one if married children have a good relationship with their parents, because the total living expenditure of the latter is more costly than the former.

In 1953 there were about 1.55 million households. By 1982 this figure had increased to 4.03 million. The growth rate was 3.35% annually. Before 1971 the average growth rate of households was 3.17% annually, and the growth rate of population was 3.28% annually. During the same period of time, the average number per household was about 5.5 to 5.6 persons. But after 1971, because of the rapid growth of the economy, the level of urbanisation became higher than before, and

especially the promotion of family planning, though the growth rate of household was still 3.7% per year in the 1970s, the growth rate of population was only 1.91%. Therefore, the average number per household decreased from 5.5 persons in 1972 to 4.5 persons in 1984. This demonstrates that there was a significant change in household size. Generally there will be some young children and some old people in a household. Its dependency ratio mainly depends upon the age structure of a household. But the larger the size of a household, the larger the probability to have more adult members to undertake the household economic responsibility. That is, the function of social security of a large household will be better than a small one. Therefore, the decline of household size could mean the decline of its function of social security.

However, a family can play a better function of social security only if the family can be as large as possible and include old parents, adult couple and young children. So the factor of whether married children like to live with their parents or whether parents like to live with their married children is a crucial one. Nowadays the actual co-residence rate ('co-residence' here means that 'family' and 'household' are identical, ie, parents and children are actually living together, eating together was still as high as 66.7% in 1986 (Cheng, 1986), though this is lower than the rate in 1980, let alone 1973. What is its trend in the future? In a comparative study in 1973 and 1980, a clear trend of the proportion of co-residence has been shown (see Table 5.5). Firstly, in both 1973 and 1980, the more recent the marriage cohort, the smaller the proportion who were still in co-residence with their parents (Freedman, et al, 403). Secondly, the proportions of co-residence were higher in 1973 than in 1980 for all cohorts.

Table 5.5 The Length of Co-residence

%(N)

Length of Co-residence	1973	1980
Married less than 5 years		
Still live with parents	78(1101)	74(966)
No longer live with parents	(860)	(711)
Separate after 1 year's co-residence	14	26
Separate after 3 years' co-residence	30	72
Married from 5 to 9 years		
Still live with parents	86(1109)	77(844)
No longer live with parents	(956)	(653)
Separate after 1 year's co-residence	9	13
Separate after 3 years' co-residence	24	26
Separate after 5 years' co-residence	33	38
Separate after 7 years' co-residence	41	66
Separate after 9 years' co-residence	47	91
Married from 10 to 14 years		
Still live with parents	89 (889)	82(581)
No longer live parents	(790)	(479)
Separate after 1 year's co-residence	4	13
Separate after 3 years' co-residence	14	26
Separate after 5 years' co-residence	22	33
Separate after 7 years' co-residence	29	38
Separate after 9 years; co-residence	36	42
Married over 15 years		
Still live with parents	92 (685)	90(332)
No longer live with parents	(632)	(299)
Separate after 1 year's co-residence	3	8
Separate after 3 years' co-residence	9	16
Separate after 5 years' co-residence	15	22
Separate after 7 years' co-residence	19	27
Separate after 9 years' co-residence	24	32

## Note:

- 1)The population was restricted to the Taiwanese couples those whose husbands were under 45 years and their parents were alive and lived together at least one month after marriage.
- 2)The percentages were calculated based on a life-table of different marriage durations.
- 3)The allocation of separate-residence could not traced back to the original marriage durations.

Source: Freedman, et al, 1982:403

According to another general sample survey of the breadwinner of households, conducted by the DGBAS in 1982, the attitude to co-residence of parents with married children was not very positive. Only 24.8% people were in favour of co-residence, 40.7% against and the remaining 34.5% had no special preference (see Table 5.6). Compared to the actual co-residence figure, it is really very striking that a very high



proportion of people are against co-residence in their attitude. And more curiously among this group of people, the older the people were, the stronger their objection to co-residence. This is really a little out of our expectation. This phenomenon might be linked with the level of education and income, because the same empirical survey data showed that: the higher the level of education, the more people tend to be in favour of separate-residence and against co-residence, and vice versa; the lower the income level, the more people tend to be in favour of co-residence, while at higher income, there are more people against it. Therefore, we can conclude that the factors of education and income have played a very important role in the attitude on co-residence.

Table 5.6 Attitude To Co-residence of Parents with Married Children

Items		favour	no opinion	against	total
All		24.8	34.5	40.7	100.0
Age	under 40	23.7	36.7	39.6	100.0
	40-60	26.0	32.7	41.3	100.0
	over 60	24.0	32.9	43.1	100.0
Marital Status	single	21.3	43.4	35.3	100.0
	married/coh.	24.5	33.9	41.6	100.0
	divorced/se.	26.4	36.0	37.6	100.0
	widowed	38.2	30.6	31.2	100.0
Education Attainment	college & +	14.6	35.4	50.0	100.0
	senior high	19.8	37.6	42.6	100.0
	junior hi &-	28.6	33.5	37.9	100.0
Income Level	lowest 5th	28.4	32.1	39.5	100.0
	2nd low 5th	26.9	34.1	39.0	100.0
	middle 5th	25.1	36.4	38.5	100.0
	2nd high 5th	23.9	35.8	40.3	100.0
	highest 5th	19.6	34.6	45.8	100.0

Source: DGBAS, 1982:34-36

However, the level of education and income are not the only exclusive factors to explain this phenomenon. Marital status can also explain part of the secret. The empirical data showed that most married and divorced people tend to be against



co-residence, but most widowed persons tend to be in favour of it. Those who do not have special preference are the single (see Table 5.6). According to previous study (see Table 5.5), as there are still about 70% married children living with husbands' parents, the un-harmonious relation between mother and daughter-in-law may be the main cause that leads to the objection to co-residence, because many married children did live with their parents after they were married and had lived a period of time so. Not all of them separated from their parents as soon as they were married. But if the problem of un-harmonious relationships could not be solved, they would still tend to separate. Fortunately, however, man is also a social animal. He needs some close relationships with other people. This makes the widowed persons tend to be in favour of co-residence. As for single people, unless they have an unhappy relationship with their parents, because most of them are young and do not have the experience of personally difficult or unhappy relationships with other people, so they tend to have no special preference. But as the data indicates, they would tend to be against co-residence after they are married, and would have the opposite view after they are widowed.

Following the change of family size, the structure of family also changes. It can be shown by a comparative study conducted by Taiwan Provincial Institute of Family Planning in 1982 (see Table 5.7).

Table 5.7 Family Change in Taiwan: 1973-1980 (%)

Family	Total		Taiwanese		Mainlander	
	1973	1980	1973	1980	1973	1980
Nuclear	49.1	52.6	42.5	49.6	80.9	78.0
Stem	48.4	45.4	55.0	48.4	18.8	21.5
Joint	2.5	1.9	3.0	2.0	0.3	0.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

## Notes:

Nuclear=A couple with non-adult and unmarried children

Stem=A nuclear family with couple's parents

Joint=A stem family with two or more nuclear families

\*'Taiwanese' and 'mainlander' are decided according to the registration of their original province in household office.

Source: Freedman, et al, 1982:400

In view of the above table, we can see that the figure of the nuclear family has increased from 49.1% in 1973 to 52.6% in 1980, so we then might have a misconception that the people in Taiwan prefer nuclear family to stem family. Actually the tendency would not be so significant. One important fact that can help us to understand this phenomenon is that most married children nowadays have several brothers and sisters. Because their parents can live with only one of their married children, so there can only be one stem family and the rest of the married children can not but have their own nuclear families. This might be the main reason why the number of nuclear families have increased so significantly and the rate of co-residence is still as high as 70%. The other important factor is the housing condition in Taiwan tends to have fewer rooms per household/flat (only 2.5 in 1986) due to urbanisation (see Table 5.8). This objective condition greatly restricts the possibility of co-residence of parents and their married children.

As for the reason why the number of nuclear families of mainlanders has decreased, it is because most of them immigrated from mainland China after 1949. They are now quite old and their parents are either dead or remained in mainland

China, so their percentage of nuclear families was quite high in the earlier stage. But in the later stage when their next generation started to marry and continued to live with them, so the figure of nuclear families tended to decrease and that of the stem families tended to increase.

Other studies (Wen, 1986; Chang, 1986) also showed that the co-residence rate of old parents and married children would tend to decline with the increase of the degree of economic development and urbanisation. This demonstrates that there are some real objective and subjective difficulties in the issue of co-residence. First, the occupation mobility in Taiwan is very high with changes in residence area. It is more difficult for a big family to move than a smaller one. Second, because the education of second generations is generally higher and better than the parents' generation, the ideas and life style are quite different from each other. This may make the relationship between mother-in-law and daughter-in-law more difficult to adjust to. Third, the parents with higher education attainment and socio-economic status are always the parents with higher earning ability. This will mean they will not be dependent on their children necessarily and economically. Fourth, Taiwan is not a very big country. So even if they do not live together, they still maintain contact by phone or visit each other easily. It does not make much difference.

### 5.6.2. Housing

Every family or household must live in a housing unit. So there is a close relationship between family (or household) and housing. If the number of family is equal to the number of households registered in the household office, then the ratio of households to housing units can be considered as the ratio of family to housing. And then, the trend of family can be demonstrated. According to census evidence, the ratio of household to housing units was 0.999 in 1966. In 1970 and 1975 these ratios were 1.000 and 1.003 respectively. But in 1980 this ratio was up to 1.166 (IQL, 1985:127). This means that there were about 17% of families which had to share a housing unit with another family. But according to other statistical figures from

DGBAS, the rate of one family occupying one housing unit had risen from 84.6% in 1979 to 92.0% in 1986. Only 8.0% of families still need to share a housing unit with another family. These figures demonstrated that the supply of housing was greatly improved, but it is still not satisfactory.

The housing unit was not necessarily owned by the family because the rates of owner-occupied housing were only 67.4% in 1976, 78.8% in 1986 and 79.2% in 1987. That is, there were at least 21% of families which did not have their own houses. They had to live in rented accommodation or assigned houses. Of course, the lack of the ownership of housing does not necessarily influence the quality of housing significantly unless the economic circumstances are too disadvantageous to achieve a good housing. Several other conditions must be taken into account.

Firstly, the usage of housing will influence the quality of housing very much. The quality of accommodation of houses which are used only for dwelling is certainly better than those which are used also for other purposes such as workshop or commercial shop. From 1979 to 1986, the rate of usage for dwelling purposes only fluctuated between 83-84% ( DGBAS, 1986b:4 & IQL, 1985:128).

Other influential conditions are housing size, housing facilities and housing possessions. The average housing size in Taiwan was 23.4 *ping* (1 *ping* = 36 sq ft) in 1976 and increased to 27.7 *ping* in 1986 (28.6 *ping* in 1987). Accompanied by the decrease of the number of persons per household from 4.95 persons to 4.69 persons in the same period of time, the average living size per person increased from 4.7 *ping* to 5.3 *ping* (6.26 *ping* in 1987). The situation has improved significantly. But if we view the average number of persons per room, we find that the figure increased from 1.08 persons in 1979 to 1.15 persons in 1986. This means that the increase of housing area was mainly used for extending the size of living room, dining room and even bedroom, but not for increasing the number of those rooms. On the contrary, the number of rooms per flat tends to decline. Compared to developed countries, the

number of rooms per housing unit is significantly low. The high price of housing might be one of the main causes of this disadvantage. In turn this factor restricts the rate of co-residence.

Table 5.8 Housing Situation in Taiwan

Items	1980	1982	1984	1985	1986
Floor area (ping per household)	24.75	25.40	26.21	26.43	27.74
Rooms per household	2.8	2.7	2.5	2.5	
Persons per household	4.82	4.76	4.75	4.71	4.69
Living area(ping) per household	5.13	5.33	5.52	5.61	5.91
Rooms per person	0.95	0.82	0.82	0.85	0.87
Persons per room	1.05	1.22	1.22	1.18	1.15
(Per 100 Households) below:					
Housing Ownership:					
owner-occupied(self-owned)	77.3	74.5	76.7	78.1	78.8
rented housing unit	13.8	14.4	13.3	12.6	11.4
assigned housing unit	5.9	7.3	5.9	5.3	5.5
other(such as borrowed)	3.1	3.9	4.1	4.1	4.4
Housing Usage:					
residence only	82.3	84.0	83.8	84.6	83.8
residence with commercial use	12.8	11.1	11.5	11.6	11.9
residence with manufacturing u	2.7	2.9	2.7	2.4	2.5
residence with other use	3.0	2.1	2.0	1.4	1.8
Housing Facilities:					
Kitchen					
private	94.7	96.8	97.0	98.2	98.0
shared	4.2	2.0	1.3	0.7	1.0
none	1.1	1.3	1.7	1.1	1.1
Bathroom					
private	90.7	92.4	93.8	96.0	95.7
shared	5.6	2.8	2.0	1.3	1.5
none	3.7.	4.9	4.2	2.7	2.8
Toilet					
private	86.4	90.1	92.0	94.1	94.6
shared	11.1	7.2	5.1	4.1	3.6
none	2.5	2.8	2.9	1.8	1.8
Water Supply:					
piped water	75.0	77.1	79.0	80.2	79.5
water from wells	21.6	19.6	18.3	17.3	17.9
water from springs	2.6	2.1	1.9	1.9	2.1
others	0.9	0.4	0.8	0.7	0.5
Family Possessions:					
television sets	102.0	102.9	104.2	105.5	106.7
colour television sets	69.3	83.1	90.4	92.3	94.4
refrigerator	92.3	94.3	96.1	96.7	97.1
washing machine	64.7	70.5	75.5	77.8	79.5
gas stove	96.8	96.9	96.8	97.4	-
air conditioner	14.4	17.2	22.9	24.0	25.5
camera	26.2	29.6	34.6	36.6	-
stereo set	25.6	30.0	32.5	34.5	-
piano	4.6	5.8	7.5	7.4	7.9
video recorder	1.5	5.8	14.2	20.7	27.1

Sources: DGBAS, 1986b, 1987:296-7  
CEPD, 1986d



Housing facilities also have a close relation with the standard of living. The ownership rate per 100 households of private kitchen, bathroom and toilet was 98.0%, 95.7% and 94.6% respectively. The population served with electric lighting and piped water was also up to 99.7% and 77.9% respectively in 1985. Apart from the service of piped water, which is somewhat lower, they are up to the level of developed countries. As for family possessions such as TV sets and refrigerators, these figures also seem quite good.

Table 5.9 International Housing Situation

Item	Germany 1978	Italy 1981	Sweden 1980	Scotland 1981	France 1975	Japan 1978
Persons/household	2.4	3.0	2.3	2.8	2.9	3.2
Rooms/housing Unit	4.4	-	4.1	3.8	3.4	4.3
Persons/room	0.6	-	0.6	0.7	0.8	0.8
Housing Ownership						
owner occupants	36.0	-	54.9	34.7	46.7	59.8
renters	64.0	-	40.8	64.9	42.8	40.0
Vacancy Rate (%)	3.0	19.9	4.7	9.8	16.0	9.2
Toilet: all	100.0	-	98.5	99.0	73.8	99.7
flush	97.1	-	96.2	-	71.9	45.9
Piped Water	-	-	-	-	97.2	92.7

Source: UN, 1986:498-507

### 5.6.3. Education

Education is another important indicator of the quality of life of a society. The level of education influences not only personal occupation, income and social status but also the life style, technology level, economic development and modernisation of a society. There are several scales to indicate the achievement of education in Taiwan. First, the literacy rate: it was only 57.9% in 1952, but it was 92.0% in 1986. Though it was not as good as developed countries, it was in the forefront of developing countries.



Table 5.10 Literacy Rate in Taiwan

Year	%
1952	57.9
1960	72.9
1970	85.3
1980	89.7
1985	91.6
1986	92.0

Source: CEPD, 1986d:24; 1987a:6

The six-year primary education in Taiwan is compulsory. From 1967 on, compulsory education was extended to nine years, including three-year junior high school. The entrance rate to primary school was 99.8% and that of junior high school 98.6% in 1982. After nine-year's compulsory education, apart from 27.5% of the graduates who will be in employment, those who continue their further education can be divided into two groups: occupational (or professional) group and academic group. The students in the occupational group would go to occupational high school or five-year's junior professional colleges; those in the academic group would go to a general high school and prepare for entrance to university or college. The proportion of the students in these two groups, ie, occupational to academic, were 49:51 in 1966, and 71:29 in 1981. Even so, the competition for entrance to university or college is still very strong today. According to official statistics in 1985, the distribution of education attainment of population aged six and over in Taiwan was as follows: Illiterate 8.4% and literate 91.6%; among the literate, there were self-learned 2.3%, primary 48.4%, junior high 18.4%, senior high 14.9%, and higher education 6.0%. A well-developed education is not only good for economic development but also good for the implementation of social security provision.

#### 5.6.4. Health

Another important aspect of social life is health. According to research conducted by Directorate-General of Budget, Accounting and Statistics (DGBAS) in July 1982, the

elements of happiness of social life could be divided into six by their priority order, ie, good health, harmonious family life, wealth, satisfactory job, high education and religious belief. Good health came to be the first priority. Roughly there were 66.3% of respondents who felt that their health situations were very satisfactory and satisfactory. Most who felt not satisfactory were the elderly and the low income-earners. So it is the elderly and the low income-earner who need health services most.

In the last ten years, the growth rates of both physicians and hospital beds were over 50% and 100%. In 1985 the population per physician (including Chinese herb doctors) was 1,130 persons and the population per hospital bed was 270 persons (CEPD, 1986e:60-61). Compared to western industrialised countries whose population per physician were less than 600 persons and the standard population per hospital bed which is recommended by the World Health Organisation (WHO) as 125 persons, the standards of Taiwan still need to be improved. Another related indicator is the distribution of medical resources. We shall compare the number of physicians (also including Chinese herb doctors) per 10,000 population among different administrative units in 1985. The range was from 3.0 persons in Chiayi County to 17.1 persons in Taichung City. The average was 8.04 persons (CEPD, 1986e:60-61). It seems that the distribution in urban areas is better than rural areas. But the distribution of hospital beds was quite abnormal. By the same measurement the highest figures were Chiayi City's 103.5 beds and Hualien Hsien's 92.6 beds, the lowest one was Changhua Hsien's 11.0 beds (CEPD, 1986e:60-61). A more equal redistribution is required.

For the people who are not included in social insurance and sub-universal health service, the main characteristic of health services in Taiwan is of near-perfect competition in both supply side and demand side. The physicians can establish their own clinics or hospitals freely and have clinical freedom to decide on the diagnosis and therapy they consider appropriate for their patients. On the other hand, the patients also have a perfect freedom in the choice of the clinics or hospitals that they

wish to attend. Another special characteristic is that there is no separation of medical and pharmaceutical services. All private clinics or hospitals of physicians can sell medicine, and all patients can buy all kinds of medicine without doctors' prescriptions. However, the consumption of medical services is quite different from the consumption of general goods. It is very difficult for patients to estimate the cost of the service and there is no opportunity for the patient to bargain with the doctor. The patients are certainly at a disadvantage.

In Taiwan as both GEI and LI are employment-related, so are their health services. Although the retirees of GEI may opt to join health insurance voluntarily, all retirees of LI will lose their entitlements to joining health insurance in LI as soon as they are retired. In general the retirees are old, so they will need more medical care. So the provision of health services is a major issue for the retired people.

## 5.7. Conclusion

Generally, as Taiwan is located in a semi-tropical zone, its temperature is mild and its climate is pleasant. Particularly in the winter its living conditions are not as difficult as countries in a temperate zone. Unfortunately its natural resources are very scarce. Its main resource for economic development is human capital. So the large and dense population in Taiwan is both an advantage and a burden. To cope with the large population, compared to the radical policy of mainland China, we adopt a mild policy to encourage all families to have only two children in order to achieve a demographic steady state of ZPG in the coming decades.

We have used several indicators to measure the economic achievement of Taiwan. Its achievement is splendid. It is a great advantage to have a good economic basis to develop a sound social security system. Apart from the equal distribution of farm land due to the rural land reform, the great majority of medium and small scale of enterprises which are due to the special Chinese cultural value also makes a great contribution to the equality of income distribution in Taiwan, so the policy of social

security of Taiwan does not need to put so much emphasis on this object as other countries so. According to Dr. Sun Yat-sen's thought, nationalised land and public owned capital could be the available sources to finance the social security scheme in Taiwan in the future.

As for social security legislation, there is a sound legal basis in the constitution. But the actual law-making is not very satisfactory due to the aging of the Legislative Yuan. In the near future if we can amend the constitution as Dr. Sun's original design: political laws made by political representative body and administrative laws made by government experts, then the making of social security laws will also be divided into two parts: the part of value-judgement decided by political representative body and the part of expertise decided by government experts. Under this arrangement, many unnecessary technical errors could be easily avoided.

Both in theory and in practice, the family is generally considered as the main provision of social security in Chinese society, and certainly is in Taiwan. The family structure in Taiwan has changed gradually under the forces of modernisation and industrialisation. In modern industrialised society, the members of a family can be more economically independent than before, so the size of family will tend to be smaller. And the declining of family size indicates that its function of social security is also weakened. This is the reason why other types of social security measures must be strengthened.

In Taiwan the services of housing and health must be considered as the contents of social security because these expenditures are paid for by family income, except for the minority of insured and military servants who are entitled to free medical service. Generally the housing and the medical conditions of Taiwan are not as good as developed countries, improvements are necessary. The planning of a social security scheme must take them into account properly.

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## **CHAPTER 6**

### **OLD PEOPLE IN TAIWAN AND THEIR NEEDS**

#### **6.1. Introduction**

As the main interest of this thesis is to discuss the social security provisions for old people, the discussion of this chapter will focus on some of the main characteristics which are closely related to the elderly in Taiwan. The number of old people involved is inevitably a most important point. Though the numbers of old people, either in the past or at present, are well-recorded in official publications, a discussion of the change of the number of old people is also of some importance because the population structure of Taiwan has been in a state of transition since the mid 1960s and the age composition has been changing gradually. This change will greatly influence the need of social security provisions. The discussion will be based on the population projections made by the Council for Economic Planning and Development(CEPD).

Secondly, a new social provision must be relevant to its society and consistent with its basic values. In Chinese society there is a high ideal that old people should live in a family and especially with their children. Only under such arrangements it is believed that old people can be free from suffering physical need and the deprivation of mental loneliness. However, this usually only happens to old people who have children. For those who are not married or married but do not have children, this provision will not be valid. Therefore, a discussion of the number of single persons and the number of married persons without children is necessary. Even the number of married persons having children but not living together is also meaningful.

As income security is the main aim of social security, the economic situation of old people is one of the most important concerns in this chapter. Sources of income and their levels will be discussed. In Taiwan there is at present neither a public health service nor a universal health insurance scheme. Medical expenditure is often one of

the largest items of basic living expenditure. Under such circumstances medical expenditure has to be included in the coverage of social security. Moreover, medical expenditure is always inversely related to one's health. A discussion of the health situation of old people is therefore necessary. Furthermore, as man is a social animal, social activities are not only enjoyable but also a cause of health. For this reason these issues have to be discussed at some length.

## 6.2. The Number of Old People

According to official statistics, the number of people over 65 years of age in Taiwan in 1986 was 1.03 million, about 5.3% of the total population. After the War, there was a long period of at least 20 years, when the proportion of old people in Taiwan remained at about 2.5% despite the rapid rise in total population (see Table A1 and Table A2 in Appendix). Compared to Sweden's 17.1%, Britain's 14.9%, or even Japan's 10.2% (see Tables A6, A7 and A8 in Appendix), the population of Taiwan is still quite young.

However, there is no problem concerning the number of old people at present and in the past. It is more important to estimate this figure in the future in the discussion of social policy. As discussed in the previous chapter, under the birth policy of '2-children per couple' (2C/C) or '1-child per person' (1C/P) and the related tax policy, the possible population of Taiwan in the future will fall between medium and the low projections of population. Under these two projections, the population of Taiwan will reach ZPG state in between 2022 and 2027 at a population level of between 24 and 25 million. At that time its birth rate and death rate will be equal at the level between 0.98% and 1.07%. And the number of old people will be between 3.5 and 4.3 million at the rate between 14.8% and 16.9% of total population. Otherwise, if the ZPG state is not achieved, then a growing population will bring down the proportion of old people and a decreasing population will push up this proportion even if the number of old people remains the same.



Table 6.1 Zero Population Growth in Taiwan (million)

projection	low	medium
year	2022	2027
population (N)	24.0	25.1
65+ population (N)	3.5	4.3
65+ population (%)	14.8	16.9
birth rate (0/00)	9.8	10.7
death rate (0/00)	9.6	10.5

Source: CEPD, 1986b (Table A5 in Appendix)

Compared to the ZPG state, we expect that the number of population, both the total and the elderly, will continue to grow. Especially, the proportion of old people will be three times more than today in 3 to 4 decades. The composition of population will differ greatly from today. If we do not have a good provision in old age for the working people today, we will face a serious social security problem concerning old age in the future.

### 6.3. The Family Situation of Old People

Family is the most important institution of human life. Almost all people are born into a family, and maybe spend their whole life in one or several families. However, the meaning and the function of family between east and west are quite different. In western societies, especially in modern western societies, the development of family tends to be a life-cycle pattern (Turner, 41). A family, known as 'family of marriage', will be created whenever a man and a woman from two different nuclear families, known as 'family of origin', are married after a certain period of time of courtship. After experiencing an intimate initial marriage stage, there comes a long period of child-bearing phase. Children are the seeds of the new families of the next generation. And after all children get married and have their own new families, these two persons, a man and a woman, will resume their late marriage again until the coming of the phase of disintegration, that is, the death of one of the old couple. Whenever the last member also dies, then this family comes to an end.

On the other hand, the development of Chinese family life traditionally tends to be an evergreen-style. The size of family may have declined somewhat and the members of family may also have been totally replaced, but the family can still remain the same by having the same ancestors or the same genealogy. Even some minor children have their own families in separate places, but these families are only considered as sub-family. The main family must be the family that their parents live in. By custom all children have to have a reunion in that main family in the Mid-Autumn Festival and the Chinese New Year Eve. Therefore, in theory, all persons belong to a permanent family whether they are living in that family or not. Of course, this style of Chinese family is mainly feasible in a rural society where all members of a family generally live together, work together and have common property. But in an industrialised and urbanised modern society, most members of a family have to engage in different jobs in different areas and generally have to live separately in different houses. Especially, as mentioned in the previous chapter, the average size of a housing unit in modern society is so small, only 27 *ping* or 2.5 rooms per housing unit, it is impossible for the great majority of families to have a reunion over a night any more. This fact will greatly weaken the function of taking care of old members of the family as previously. What is the difference between fact and ideal of Chinese family life in Taiwan today? We need to check this by empirical evidence.

Generally, we assume that family plays a vital role in the social security in Chinese society because, according to the civil law in Taiwan, there is a legal supporting obligation between husband and wife and between parents and children, but no such obligation between brothers and/or sisters. So family in Chinese society has an important role in income maintenance in the same way as statutory social security programs. The difference is that family is only an informal one because there is no further regulation or penalty to require the related members how to carry out this obligation. All these things are dependent on the willingness of the members or the moral sanction of the society. However, only the persons who have/had ever married,

including either the widowed or the divorced, may have children to support their old age. As for unmarried single persons, they definitely must depend on themselves. So we would like to examine this element, marriage, first.

What is the marital situation of old people in Taiwan today and in the future? Unfortunately the data of old people aged 65 and over is not available in formal official statistics. The only data available is for those aged 50 and over (see Table 6.2). There must be some differences between the proportion of marital status of people aged 50 years and over and that of 65 years and over because there is a 15 year gap. Especially, the higher the age the higher the mortality rate, so, after deleting the youngest group of older people aged 50 to 64, the figures in the column of the people aged 50 and over (see Table 6.2 and Table 6.3) will certainly have a sharp rise in the widowed rate and a sharp decline in the married rate. As for the rates of divorce and single, we would expect they change mildly.

Table 6.2 Marital Status in Different Age Groups in Taiwan Area, 1984 (unit=1,000)

Marital Status	Age Group							
	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50+
Married	37.6	444.5	1 206.4	1 390.1	930.3	845.3	762.1	2 233.5
Widowed	0.1	1.2	4.6	10.1	12.5	20.4	32.3	515.5
Divorced	0.4	7.2	24.5	36.3	25.9	20.4	17.0	58.0
Single	1 881.6	1 549.4	639.0	200.0	65.5	37.8	30.1	235.7
Total	1 919.7	2 002.3	1 847.5	1 636.5	1 034.2	923.9	841.5	3 042.7

Note:

Married=spouse alive

Widowed=spouse dead

Divorced=spouse separated

Single=not married/not widowed/not divorced

Source: MOI, 1985a:357

Table 6.3 Marital Status in Different Age Groups in  
Taiwan Area, 1984 (%)

Marital Status	Age Group							
	15-19	20-24	25-29	30-34	35-39	40-44	45-49	50+
Married	2.0	22.2	64.4	85.0	90.0	91.5	90.6	73.4
Widowed	0.0	0.1	0.2	0.6	1.2	2.2	3.8	16.9
Divorced	0.0	0.3	1.3	2.2	2.5	2.2	2.0	1.9
Single	98.0	77.4	34.1	12.2	6.3	4.1	3.6	7.8
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Calculated from Table 6.2

From Table 6.3, we can see a special pattern of marital status. The rates of married and divorced persons tend to be an upside down U pattern. The climax of married persons is at the age group of 40 to 44 years and that of divorced persons is at the age group of 35 to 39 years. The pattern of widowed persons increases mildly before the age group of 45 to 49 years and increases drastically afterwards. On the contrary, the pattern of single persons decreases drastically before the age groups of 45 to 49 or 40 to 44 years and decreases mildly afterwards. Of course, these rates are mutually related. Among them, the rate of the married is reversely related to the widowed and the divorced because one death in the married means 2 less in the married and 1 plus in the widowed; one divorce means 2 less in the married and 2 plus in the divorced; one marriage means 2 plus in the married and 2 less in single or divorced or widowed. For single persons, in normal cases the rate would continue going down mildly. But in fact there is a bulge in numbers of single people over 50. This rise of the single rate of people at age group of 50 years and over is very odd and abnormal. It needs some explanation.

Fortunately, this anomaly can be explained fully by related facts. Firstly, from the figure of sex ratio (see Figure 6.1) and the population pyramid (see Figure 6.3) of the Taiwan area in 1984, we can clearly recognise that there is a great excess of males (compared to the normal case, not to female) within the age groups from 50 to 72

Figure 6.1 Sex Ratio in Taiwan, 1984

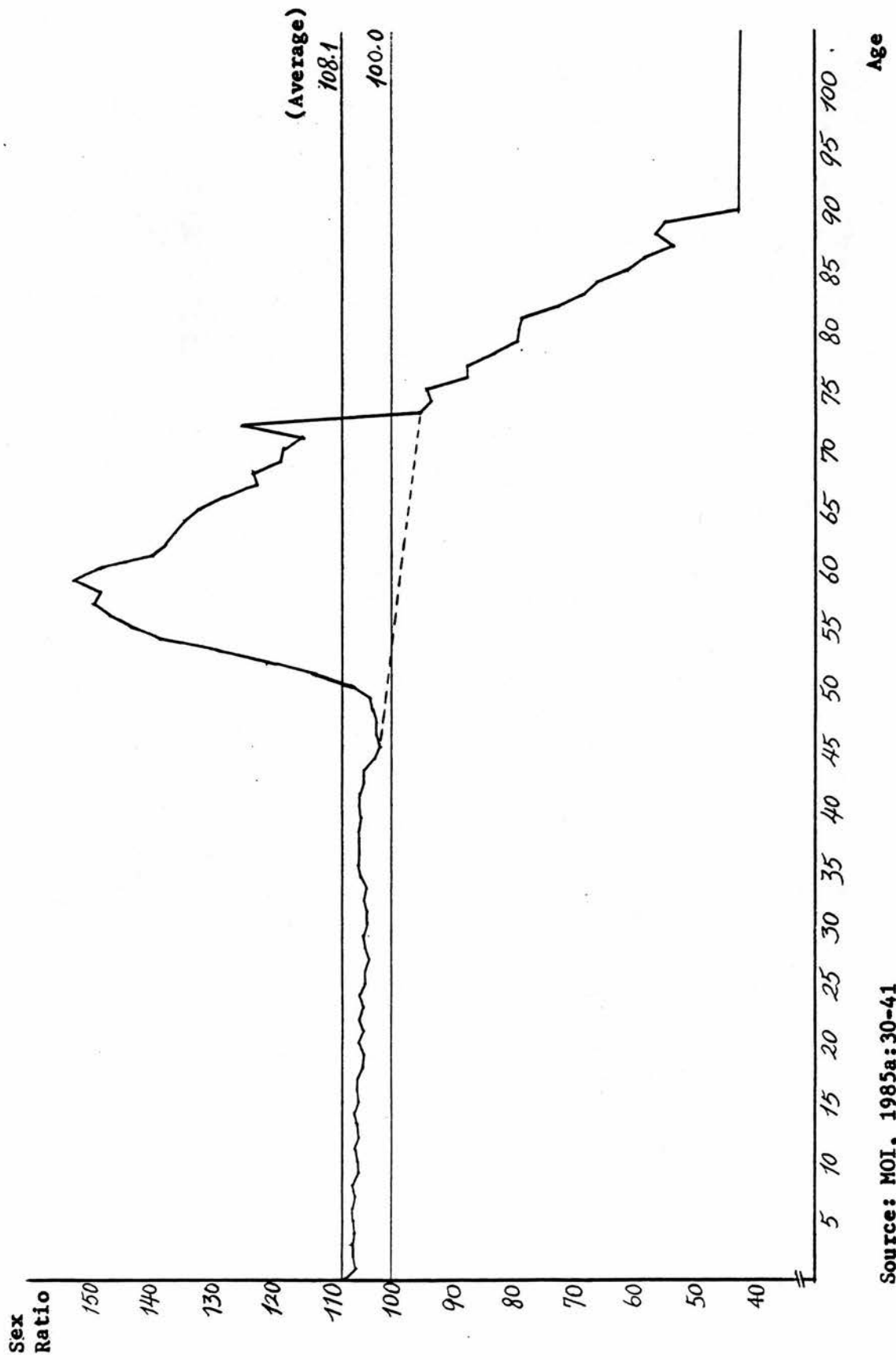
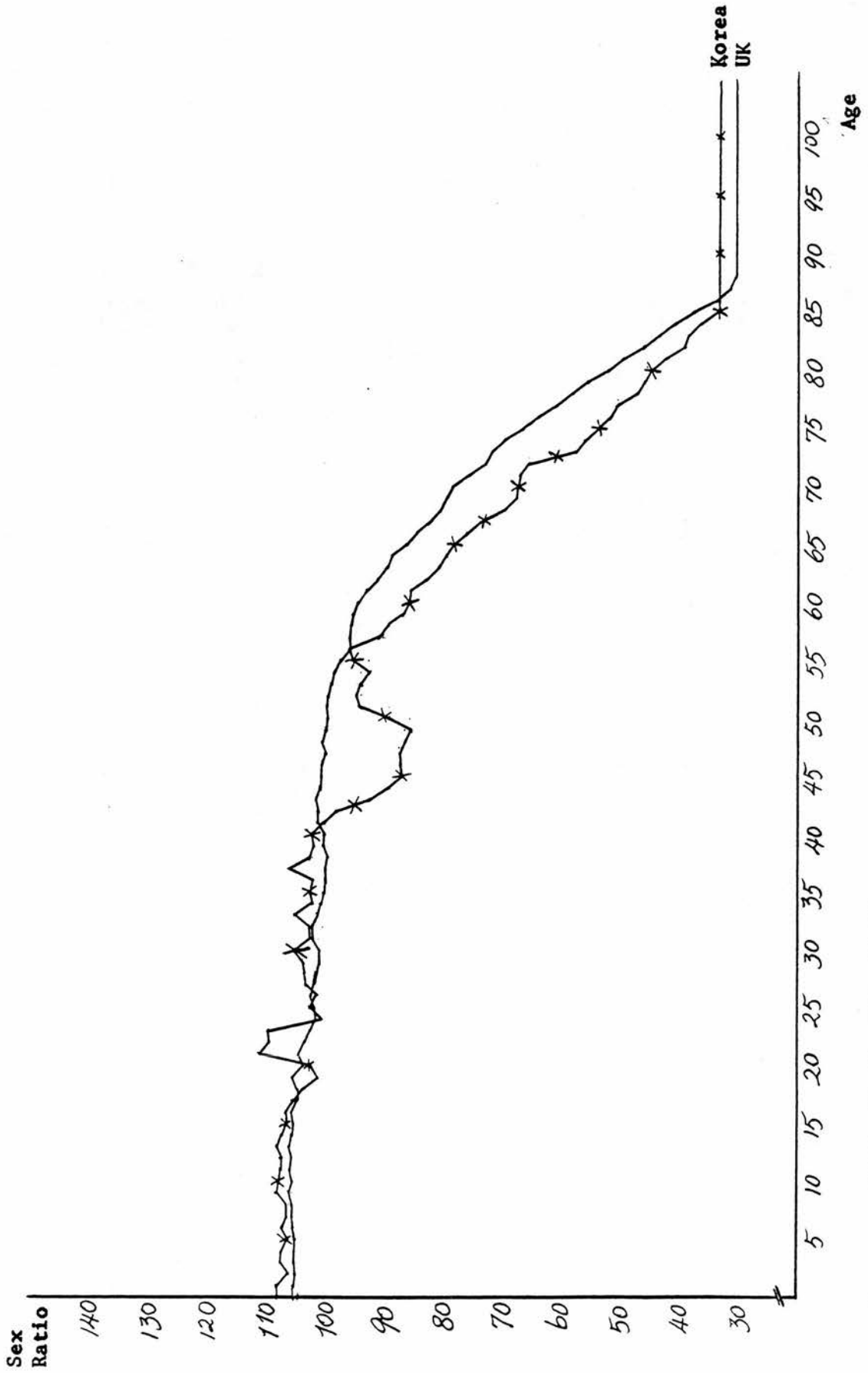
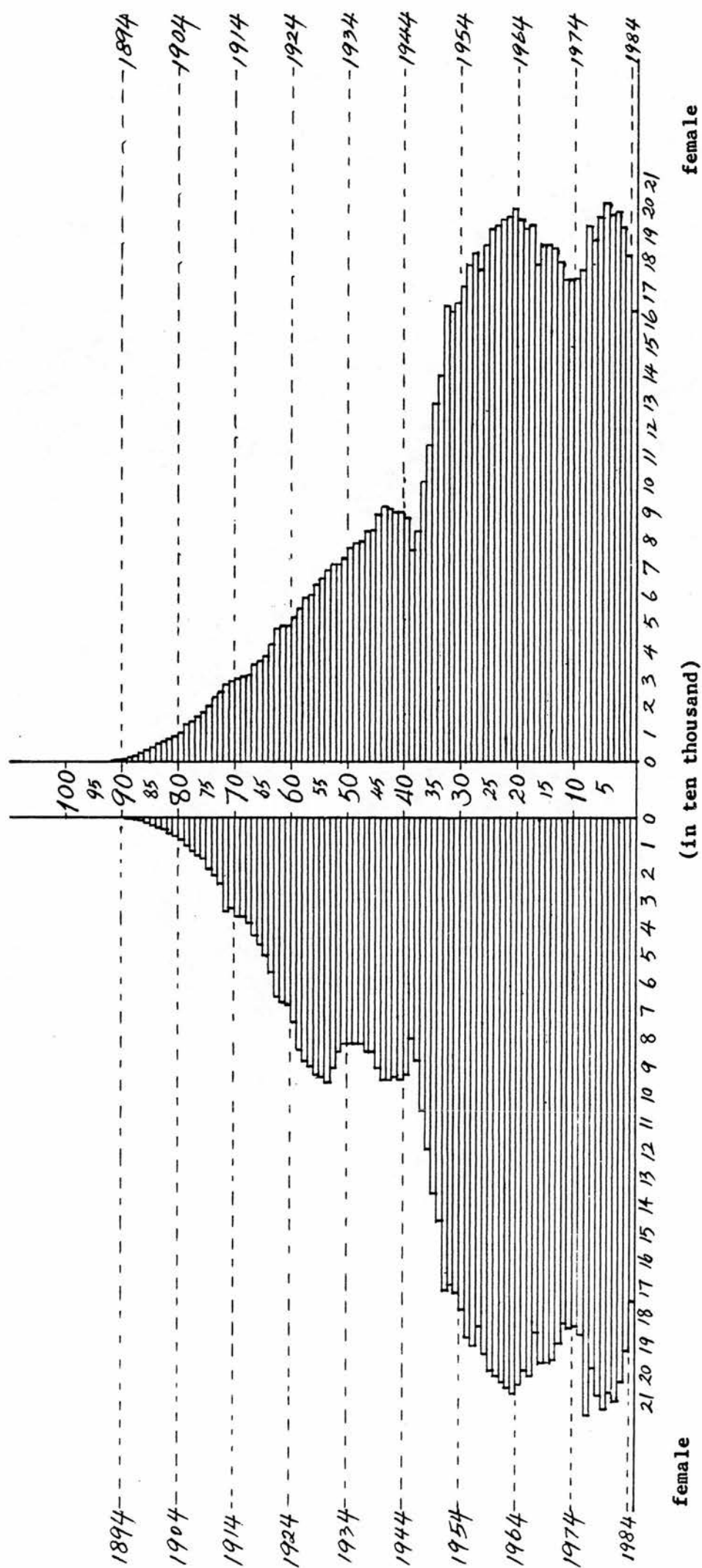


Figure 6.2 Sex Ratios in UK and Korea



Sources: OPCS, 34-37; NBS, 42-43

Figure 6.3 Population Pyramid in Taiwan, 1984





years old. From the official statistics we know that 84.7% of the single persons aged 50 years and over are males (MOI, 1985a: 357). And, secondly, referring to the evidence of the author's own research, we also find that the rate of original domicile of single persons from mainland China is more than 90%. The fact indicates that most single persons were immigrants from mainland China about 35 years ago when the present government retreated from mainland China. As most of them were soldiers, the high rate of single male is a natural result. After the age of 72 years, because that is beyond the years of average life expectancy at birth for male, so the sex ratio becomes normal again.

Since excess males are significant only at the age of 50 years and over, this phenomenon will disappear naturally after 20 years. After the excess males disappear, the normal sex ratio of total population will not be so high as 108.1 in 1984 any longer. At present the lives of most single veterans from mainland China are taken care of by the Commission of Veterans, Executive Yuan, or directly by the old veterans' homes. So there is not much of a social security problem in this group of people. Especially this issue will disappear after 20 years. For this reason we may ignore the influence of single veterans and pay more attention to the ordinary, non-veteran single or 'normal single' excluding immigrant single.

In order to estimate the normal number of single persons aged 65 years and over, firstly, we must estimate and delete the number of the excess males by drawing a straight line between the two sides of the huge bulge on the sex ratio curve in Figure 6.1. The question here is that which two points beside this bulge should we choose in order to get a more adequate normal ratio. Referring to the sex ratio of UK (OPCS, 34-37), South Korea (NBS, 42-43) (see Figure 6.2), Sweden (SS, 1988:33), Japan (SBMCA, 1987:36-37) and the ethnic Chinese in Singapore (MCI, 266), we find that the values of sex ratio are commonly less than 100 after 50 years of age in all these countries. Among them, Japan and Korea are even less than 100 in 40s of age. So, for any two points, if the values of sex ratio on the straight line are less than 100 in 50s

of age shall be reasonable. When we view Figure 6.1 or read the figures of sex ratio themselves, we find that there is a lowest value at 45 years before the bulge. After that point, the values begin increasing, and are back to normal at about 73 years of age. Under these circumstances, it should be adequate to draw a straight sex ratio line between these two points: 45 and 73. Based on the difference and the number of years between these two points, we can get that the difference between each year is 0.24, so all values on the straight line can be established. Finally, because the values of sex ratio will be less than 100 after 53 years, so this line is proved to be concordant with the normal cases of other countries. According to these adjusted sex ratios in different age groups (see Table 6.4), we can get the normal figures of male in different ages and age groups, so do their total of both sexes (see Table 6.5 and Table 6.6).

Table 6.4 Population by Age over 50 with Adjustment to Delete  
Soldiers from mainland, 1984 (in thousand)

age	male	female	sex ratio	adjusted sex ratio	adjusted male	excess male	total excess
45	90.5	88.8	101.90	101.90	90.5	0.0	5.0
46	86.1	84.0	102.48	101.66	85.4	0.7	
47	85.5	83.5	102.37	101.42	84.7	0.8	
48	82.0	79.6	103.08	101.18	80.5	1.5	
49	82.1	79.3	103.47	100.94	80.1	2.0	
50	81.7	76.7	106.52	100.70	77.2	4.5	318.9
51	82.2	72.8	112.92	100.46	73.1	9.1	
52	85.4	71.0	120.29	100.22	71.1	14.2	
53	91.5	71.2	128.41	99.98	71.2	20.2	
54	95.8	69.4	138.18	99.74	69.2	26.7	
55	94.1	65.8	142.96	99.50	65.5	28.6	
56	93.5	63.9	146.51	99.26	63.4	30.2	
57	90.2	60.5	149.09	99.02	59.9	30.3	
58	88.0	59.4	148.09	98.78	58.7	29.3	
59	84.0	55.1	152.35	98.54	54.3	29.7	
60	74.0	51.7	143.05	98.30	50.8	23.1	
61	67.8	48.6	139.52	98.06	47.7	20.2	
62	67.2	48.9	137.24	97.82	47.9	19.3	
63	65.1	48.0	135.67	97.58	46.8	18.3	
64	56.1	41.8	134.23	97.34	40.7	15.4	
65	49.9	37.9	131.73	97.10	36.8	13.1	68.0
66	45.9	36.0	127.40	96.86	34.9	11.0	
67	43.1	35.2	122.24	96.62	34.1	9.0	
68	38.5	31.3	123.03	96.38	30.8	7.7	
69	36.2	30.6	118.31	96.14	29.4	6.8	
70	35.8	30.3	118.04	95.90	29.1	6.7	
71	33.0	28.7	114.83	95.66	27.5	5.6	
72	34.4	27.7	124.44	95.42	26.4	8.0	
73	24.0	25.2	95.23	95.18	23.9	0.0	

Source: 1)MOI, 1985a:36-41  
2)own calculations

Table 6.5 Marital Status Rate in Different Age Groups After Deleting the Excess of Males in Taiwan, 1984 (%)

Age Group	Married	Widowed	Divorced	Single	Total
15-19	2.0	0.0	0.0	98.0	100.0
20-24	22.2	0.1	0.3	77.4	100.0
25-29	64.4	0.2	1.3	34.1	100.0
30-34	85.0	0.6	2.2	12.2	100.0
35-39	90.0	1.2	2.5	6.3	100.0
40-44	91.5	2.2	2.2	4.1	100.0
45-49	90.6	3.8	2.0	3.6	100.0
50-54			(2.0)	(3.4)	100.0
55-59			(2.0)	(3.2)	100.0
60-64			(1.9)	(3.0)	100.0
65+			(1.9)	(2.5-2.6)	100.0

Sources: Table 6.3 and self-evaluation

Table 6.6 Marital Status in Different Age Groups After Deleting the Excess of Males in Taiwan, 1984 (in thousand)

Age Group	Married	Widowed	Divorced	Single	Total
15-19	37.6	0.1	0.4	1 881.6	1 919.7
20-24	444.5	1.2	7.2	1 549.4	2 002.3
25-29	1 206.4	4.6	24.5	639.0	1 847.5
30-34	1 390.1	10.1	36.3	200.0	1 636.5
35-39	930.3	12.5	25.9	65.5	1 034.2
40-44	845.3	20.4	20.4	37.8	923.9
45-49	762.1	32.3	17.0	30.1	841.5
50-54				(24.6)	722.9
55-59				(19.4)	606.5
60-64				(14.2)	472.9
65+				(21.3-22.2)	853.5

Sources: from Table 6.2, Table 6.4 and Table 6.5

After deleting the excess of males, because it would be quite reasonable to assume that the rate of single persons decreased mildly from 3.6% in age group of 45-49 to 3.4% in age group of 50-54, to 3.2% in 55-59, to 3.0% in 60-64, and finally to 2.6% or 2.5% in age group over 65 years (see Table 6.5), so according to corresponding total in Table 6.6, we would get the number of the single in age group over 65 years as 21 or 22 thousand persons. Among them, about 7.8 thousand lived in old people's homes.

Furthermore, according to the calculation in Table 6.4, the total excess of males in age group over 65 in 1984 was 68 thousand. This was exactly the same as that of residents in 14 veterans' homes in the same year. Although the residents in veterans' homes included many veterans who were as young as 62 years and many disabled, there were also many single veterans did not move into veterans' homes. Therefore, this figure may justify the previous statement that all single veterans have been taken care by the Commission of Veterans, Executive Yuan.

With regard to the non-single old people, whether they are married, widowed or divorced, their marital status is not so important any longer. The main issue here is whether they have children or not, because only those who have children can get support from their children. As a survey in Taipei City showed, only 86.3% of old people who have/had ever married have children, the remaining 13.7% are without children. Furthermore, not all old people having children would live with their children. There were only 65.6% living with children and the remaining 34.4% not(Tang, et al, 27). But in another survey on old people aged 70 years and over in Taipei City in 1987, the co-residence rate of old people with their children was as high as 71% (Bai, et al, 35). As older people will need more services or even more assistance from their children, this might be the main reason why this rate was higher. But according to a survey of old people on the Taiwan area in 1986, the co-residence rate was 66.7% (Cheng, 2). Viewing these two different co-residence rates of old people aged 65 and over, which one is the more believable one for Taiwan area? As not only the labour mobility in Taipei City is higher than that of the Taiwan area, but the housing price of Taipei City is higher on average than that of the whole Taiwan area, so the higher co-residence rate in whole Taiwan area could be explained by these two factors.

As shown in Table 5.6 in the previous chapter, apart from the widowed, in all situations of different variables, more people preferred separate-residence to co-residence. Those data showed an explicit relation between the attitude of co-residence and the degree of education and income. That is, the higher the level of

education and income, the stronger the attitude on separate-residence. Several other similar researches also find that the higher the level of education, occupation and socio-economic status, the weaker the attitude of both parents and children to live together; on the contrary, the lower the level, the stronger their attitude (Wen, et al, 246; Chang, 20). Generally the level of education, occupation and urbanisation of Taipei City is higher than the whole Taiwan area. Therefore, this difference is once again supported. Furthermore, according to this hypothesis, we should expect that the co-residence rate of old parents with their married children would tend to be lower in the future because the levels of education, economy and urbanisation would be higher than today.

If the description above is true, then less people will favour co-residence in the future. Under such circumstances the expectation of co-residence as old age provision for Chinese society will be in vain. However, there are some counter-evidence. Things seem not so pessimistic. Firstly, in the author's survey on retirees in 1985, the co-residence rates of parents with their children of GEI and LI were quite different. The former was 71.7% and the latter was only 67.4%. The average amounts of monthly wage, insured wage and old age payment of GEI were all better than LI, so were the education. This better economic and educational conditions made them both able to accommodate their relationship between parents and children and able to afford to have a larger house to live together. So the co-residence rate of GEI was higher than LI.

Secondly, in a regular research conducted by DGBAS, we find a fact that: when we question the people whose attitude are presently in favour of separate-residence whether they will still be in favour of the same style of residence in the future when they are retired, their answers, though not negative, are not so positive and so strong as expected(see Table 6.7). Many people who are in favour of separate-residence at present would tend to favour co-residence in the future. But very few people who are in favour of co-residence at present will change their mind in the future. This fact

means that people still prefer co-residence to separate-residence mentally and culturally. If there is a type of accommodation which can, on one hand, preserve the advantage of co-residence and, on the other hand, avoid its disadvantage, then this type of accommodation will be a great invention and most welcome.

Table 6.7 Attitude for Residence in Taiwan

in favour of	Attitude in the future			
	co-residence	separate-residence	other	total
Attitude at present:				
co-residence	22.6	1.8	0.4	24.8
no preference	18.3	12.5	2.7	33.5
separate-residence	17.2	21.6	1.9	40.7
other residence	0.5	0.3	0.2	1.0
Total	58.6	36.2	5.2	100.0

Source: DGBAS, 1982: 43

As discussed above, we find that economic condition could play either a positive or a negative role in this issue of co-residence. Basically, better economic means are needed for a family to co-reside, ie, it is impossible to expect those originally separate-living families to live together if they are too poor to get a larger house; but, however, the higher economic ability of both parents and children could also operate to reduce co-residence. That is, for those co-resident families, when their economic circumstances become better, they might like to have their own houses and to live separately, not definitely to have a larger house to better their living standard. Therefore, the economic circumstance is not sufficient reason in itself to decide the style of residence, it was only a necessity. If the economic condition is not strong, the residence situation could not be changed, whether it is originally co-residence or separate-residence. In that case, the other conditions will play a more crucial role.

Although the co-residence of the old parent with their adult children is a good income maintenance provision in Chinese society, the rising rate of



separate-residence demonstrates that this provision is now being challenged. In fact in a highly industrialised modern society, not only do subjective attitudes tend to favour separate-residence but also the objective conditions reinforce it. Apart from the reasons given in the previous chapter, more data was obtained from my empirical interviewing survey on old people in Taipei City in 1986. In that interviewing survey on the retirees retired in 1979, I received a very strong impression that the earning ability and life style of adult children play a very important role in this matter. Due to the lack of proper and sufficient education and training, many children of lower socio-economic level cannot find a permanent job and even cannot get married. They not only are unable to provide reliable support, but are also a heavy burden on their parents economically and psychologically. Some children find work with so low a wage that they are unable to buy a larger house to accommodate their parents together, nor have extra money to support their parents. For these family problems, in my interview research in Taipei City in 1986, there were three vivid cases worth introducing here to illustrate the difficulties in different family situations.

Case A. Mr. Li-lin Teng was born in 1919. He is a veteran retired from the army in 1956 with a very small amount of retirement payment. He held an informal (non-statutory) post of porter in the Taiwan Sugar Corporation in 1962. He worked for 16 years in that post until he retired. When he retired, his wage was about NT\$9,000, but his insured wage was only NT\$3,675, 40.8% of his normal wage. Though he was a full-time employee, he was not a formal employee. So he was not entitled to occupational retirement payment and his lump sum insurance retirement payment was only NT\$62,475. Nine years ago, in 1977, one year before his retirement, his 8 year old son contracted a serious disease and became totally disabled: unable to move, sit, speak or eat by himself. Mr. Teng spent all his money and property on this son, but every effort was in vain. Now his son is 17 years old. It is more difficult for the old father to take care of him. At present Mr. Teng makes some money by selling sweets to the children in the neighbourhood at home. His wife does some occasional work

while his 19 year old daughter is still at college. He has another income of NT\$3,000 per month from the veteran home. Normally, children should be expected to be a source of income for their parents, but in this case, we find that a severely disabled child is in fact economically a great burden.

Case B. Mr. Ah-hai Chen was also born in 1919. He joined the army when he was 20 years old and retired in 1954 due to sickness without any retirement payment. After retirement he did many temporary jobs. In 1961 he got a permanent job as a bus-driver in the public Taipei City Bus Enterprise. He served in this post until he was compulsorily retired in 1979 when he was 60 years old. Taipei City Bus is a government-owned enterprise, but only white collar administrators or officers are entitled to the options of lump sum payment or monthly payment in the occupational scheme. All blue collar workers such as drivers and technicians must accept lump sum payments. His monthly wage at that time was about NT\$10,000, but his insured wage was only NT\$4,807, 48.1% of his wage. So the total of his lump sum retirement payments of both occupational scheme and Labour Insurance was about NT\$300,000. He could not find a job after his retirement. His daughter was still at school at that time. So he had to support her. One more point is that his wife is the only child of his parents-in-law and they have to depend on him and live with him. They are still alive and very old. Under these circumstances he spent all of his retirement payment within 3 and a half years. Now his daughter has been married and has a baby. He and his wife take care of this grandchild. His daughter and son-in-law pay them NT\$6,000 per month. They live on this small amount of income. Mr. Chen also has a 31 year old son. Due to a lack of proper education and training, he cannot find a permanent job and is unable to get married. He seldom comes home. Under this circumstance, it is impossible for these four old parents to depend on this inadequate adult son. This indicates that an inadequately educated and under-employed child is not a reliable source of income for old parents or a family.

Case C. Mr. Yen-chun Ma was a cook in a factory. He had made quite a lot of

money and invested it by purchasing two flats. He had three sons and one daughter. He retired in 1979 and supported his eldest son to study in the United States by using his retirement payment. Now this son is married and stays in the USA. His second son and daughter are also married and live separately. After retirement Mr. Ma had even worked for another employer for 4 years. He is still very healthy and able to work. But he decided not to work any more because all his earnings were taken away by his second son. He felt very unhappy about this. Now he lives on NT\$10,000 per month from rent. He feels very happy. If Mr. Ma had had only his second son and had not invested in the extra flat, he would have been in great economic difficulty now. This case demonstrates that a son with low income or who is very selfish or of extravagant tastes will not be a reliable source of income for a family with old people.

Some children fortunately do not have the problem of earning ability, but their life style is not consistent with their parents. Old people do not eat very much, but they need refined food; they do not sleep very much, but they need more rest; when they want to sleep or to take a rest, they need a very quiet environment. Especially, the life of old people is always very regular or even stereotyped. They cannot accommodate a life with too much interference and change. This kind of life style is quite different from their young children. Not a few old people expressed the view that they did not like to live with their children. Some of them even preferred to live in an old people's home, but unfortunately they were un-qualified for publicly financed ones because they have children. As for the self-financed ones, they were neither able to afford them nor satisfied with their conditions.

Nowadays there are several very high standard self-financed old age homes. The living costs are quite high and most old people cannot afford to live there. But on the other hand, I also found some old people who definitely did not want to live in any kind of old people's homes even if they or their children could afford to do so. Their common reason is that if they live in an old people's home, all their new friends and new neighbours will be old people. If he/she becomes the person who lives the

longest, he/she has to experience many funeral events. What a terrible experience it will be. Briefly, old people's homes are a very controversial way to tackle the ageing life of old people having children.

For this dilemma, a new proposal has been raised to tackle this problem, that is, "separating but neighboured" residence policy. The life styles of two generations are so different it is better to live separately. But the old parents also need the company and caring of their children, so they need to live neighbourly. The best is that they can live next door. For this purpose, a new special housing design for the stem family has been widely discussed. But there is no creative conclusion yet. Due to economic limitations, this new idea will not be easy to carry out in the near future.

#### **6.4. The Economic Situations of Old People**

Generally when old people retire, they have to rely on non-earned income. In older welfare states this non-earned income is social security and occupational pensions. But in Taiwan only very few people can live on this kind of payment because the number of persons entitled to these payments is very few and the amount of their payments is generally very low. Then, what are the sources of income that are available for the old people in Taiwan? According to two independent researches in Taipei City, we can get a rough idea about sources of income of old people in Taipei City. Unfortunately the population and the design of the questionnaire of these two surveys are not the same. A fully comparative study is impossible. It needs some judgement when we compare their figures. The first research is a sample survey on the old people aged 65 years and over in 1984. The second one was a census survey on all old people age 70 years and over in 1987.

Although a comprehensive comparative study between these two surveys cannot be applied owing to the difference in their design of questionnaire, however, we can discuss the items that are similar in these two surveys. As we expect that children are the main source of income for old people in Chinese society, so, firstly, we are

interested to know how many old people are really dependent on this kind of source of income. Survey A said it was 21.2%, but survey B said it was 66.8% from the members of the family (see Table 6.8). It is true that the main meaning of the "members" here is "children". But, however, not all of them are children because, at least for the married people without children, their 'members' are not children. Moreover, another important thing that we must keep in mind is that survey B is a census survey on all old people aged 70 years and over. Although there were still some excess males in this population, the life expectancy of the female is longer than the male. Among the respondents, about 47% of them were females and their main sources of income might be their husband's earnings, retirement payments, savings or property gains even though their number and amount might be quite small and low. So it was impossible that all 'members' were children. According to Tang's survey in Taipei City, there were about 13.7% of old people having no child. So it would be safe to say that at least 13.7% of the 66.8% were not children. If so, as a source of income, children would be about 57.6%  $[66.8\% - (13.7\%)(66.8\%)]$  in Survey B. It is still much higher than that of Survey A. So we can generalise this fact and get this hypothesis: the higher the age of old people, the more of them have to depend on their children as the main source of income.

Secondly, we can compare the retirement payments in these two surveys. In survey A there were only 16.8% living only on retirement payment, another 26.5% were partly supported by retirement payments. In survey B the questionnaire was once again different. In this survey retirement payments and savings were classified as one item. So we have the problem of how to isolate retirement payments from this gross item. Fortunately this gross item was only 14.8%. Therefore, even if the savings were zero, the rate of retirement payments was still less than that of survey A. Furthermore, in Taiwan there is another very important point about retirement payments. It is that all retirement payments, either insurance payments or occupational payments, are based on retirees' monthly wages or insured wages. As



wages are always adjusted with the price index, so the later the retirees retire, the higher their payments. And as younger old people certainly on average retire later than the older ones, so their payments will be higher. So logically more old people in the younger group in survey A than the older group in survey B can live only on retirement payments.

As for savings, it would be gradually reduced when people started to spend after their retirement. The longer the time, the less savings will be left. Unfortunately, the sum of retirement payments and savings in Survey B was grouped together as 14.8%, or we could get direct evidence. In order to separate retirement payments from savings, it would be reasonable to suppose that the proportion of retirement payments to savings was the same as Survey A, 58.3% : 41.7%. Under this condition, the retirement payments in Survey B would be 8.6% and its savings would be 6.2%. Since both figures in Survey B were less than those in Survey A, so we can formulate this hypothesis: the older the old people, the fewer of them can depend on their retirement payments and savings.

In the case of employment income, because the figure of survey A was not only grouped with other sources, but also divided into at least two items, so it was very difficult to make any reasonable estimation. However, as the 'other sources' in items 6 and 7 were possibly 'employment', so no matter what deduction was made, the figure in Survey A would be still larger than that in Survey B. Therefore, the same hypothesis is still true: the older the old people, the less of them can depend on the income from employment, because the more of them will be too old or too weak to engage in any paid job. On the other hand, as fewer self or private sources of income can be available when old people grow older, so the figures of people who have to depend on public assistance would be larger. The fact that the figure of survey B was much larger than that of survey A proved this hypothesis.

Table 6.8 Sources of Income of Old People in Taipei City

Sources	%
Survey A: (Number of Samples=585)	
1.retirement payment only	16.8
2.savings only	12.0
3.children only	21.2
4.partly employment and partly private 'helps'	5.6
5.public assistance only	0.9
6.partly retirement payment and partly others 'sources'	26.5
7.other sources and self-help	7.6
8.unknown	9.4
Survey B:	
1.employment	7.9
2.retirement payments and savings	14.8
3.members of family	66.8
4.public assistance	6.9
5.others	3.6

Note: The questionnaire is in closed-ended questions.

Sources: 1)Tang, et al, 24

2)Bai, et al, 37

As described above, the sources of income have a close relationship with the age of old people, ie, the older the old people, the more of them have to depend on children and assistance, and the fewer of them can depend on retirement payments, savings and employment. Are these hypotheses valid and reliable? Could they just be sampling errors? It would be more convincing if there were more evidence to re-confirm or to justify these hypotheses. The author's research is available for this purpose. The interviewees of the author's sample survey were the retirees who retired in 1984 from two social insurance systems, LI and GEI. The average age of LI was 61.5 years old and that of GEI was 63.0 years. The average age of both systems was 62.2 years. Compared to the previous two surveys, the average age of the author's survey was the youngest one. It is a very good condition to use this data as evidence to re-justify the above hypotheses.

Firstly, as the population of the author's survey were retirees, so all of them more or less had their retirement payments. In theory we should ignore the figure of this



source because it would be meaningless to compare the figure of this survey, 100%, with the corresponding figures in another two surveys. But in practice if we want to treat retirement payments as a source of income as the previous two surveys, then only the persons whose payments are big enough for their basic needs can be considered as a source of income. Otherwise, if their retirement payments were too small, then their payments should be ignored. In the author's survey, there were only 37.6% (60% in GEI and 30% in LI) having sufficient gross income for their daily living expenditure. It was explicitly that the 'retirement payment', the gross income after deleting all other sources of income, would be somewhat less than 37.6%. However, because retirement payments were certainly the main part of the gross income in the author's survey, so it could be reasonable to expect that at least 60% to 70% of them were of this case. Even so, the figure was still much higher than the other two surveys. So it is concordant with the former hypothesis: the older the old people, the fewer of them can depend on retirement payments.

Secondly, the figure of 'children' should be 12.1% because only the regular or periodical payments from children can be considered as a reliable source of income. This figure is less than that of survey A. So it can support the claim that: the younger the old people, the fewer of them depend on their children because many of them can still rely on their retirements or other sources of income (see Table 6.9).

Table 6.9 Source of Income of Retirees besides Retirement Payments in Taiwan, 1984

Sources	N		%		
	GEI	LI	GEI	LI	SUM
Children: a) periodically	64	56	15.5	10.9	12.1
b) non-periodically	70	71	16.9	13.9	14.7
c) not mention a or b	12	28	2.9	5.5	4.8
Savings	89	48	21.5	9.4	12.5
Previous retirement payments	12	87	2.9	17.0	13.4
Re-employment: a) full-time	53	64	12.8	12.5	12.6
b) part-time	15	22	3.6	4.3	4.1
Investment	27	16	6.5	3.1	4.0
Spouse's employment	29	11	7.0	2.1	3.3
Spouse's retirement payments	2	1	0.4	0.2	0.3
Assistance and relief	0	2	0.0	0.4	0.3
Total or Maximum	413	512	100.0	100.0	100.0

Note: 1) The 'SUM' has been weighted by the two populations:

GEI = 6631 (25.25%), LI = 19,630 (74.75%).

2) All items are independent.

Source: author's survey

Lastly, as for the figures of employment, savings and assistance in the author's survey, they are very clear and definite. The figures of both employment (16.7%) and savings (12.4%) were higher than those of survey A. But the figure of assistance (0.3%) was less than that of survey A. All these three figures can justify their corresponding hypotheses.

In summary, as discussed above, the author's research evidence can re-confirm or re-justify all the mentioned hypotheses: the older the old people, the fewer of them can live on retirement payments, savings and employment; on the contrary, the more of them have to depend on children and assistance (see Table 6.10).

Table 6.10 Comparison of Sources of Income of the Old (%)

Sources of Income	Chin Survey		Survey A		Survey B
Children	12.1	<	21.2	<	57.6
Retirement Payments	(37.6)	>	16.8	>	8.6
Employment	16.7	>	15.0	>	7.9
Savings	12.4	>	12.0	>	6.2
Assistance	0.3	<	0.9	<	6.9

Source: Table 6.8 and Table 6.9

However, when we make a scrutiny into Survey A and Survey B, because their questionnaires are both closed-ended and the respondents can choose only one item, so their answers certainly cannot reflect the multiplicity of the income source of the respondents. According to the author's survey which was illustrated as in Figure 6.4, apart from retirement payments, among 413 GEI respondents, there were 58 persons having 2 sources of income, 9 persons having 3 sources of income and one person having 4 sources of income; among 512 LI respondents, there were 60 persons having 2 sources of income and 7 persons having 3 sources of income. That is, they were 16.7% in GEI and 13.1% in LI having more than one source of income. But if we view the mode of the sources of income separately, apart from their retirement payments, then, for example, in GEI there were 48% (43 out of 89) of persons depending on savings also having other sources of income; in LI there were 31% (27 out of 87) persons depending on previous retirement payments also having other sources of income. These figures demonstrated that the multiplicity of the sources of income was a significant phenomenon for retired people.

After making clear the sources of income of old people, we try to make clear or at least to get some general idea about the level of income from different sources. Firstly, children. If the old people live with their children, they live together and eat together, the old parents not only need not pay anything, but also can receive some pocket money regularly from their children. Every day when their children go out to work or want to join any party at night, they may stay at home to look after their



grandchildren and the house. Under these circumstances they need not worry about the problem of economic insecurity and mental loneliness. I would say co-residence is one of the best ways to provide social security for old people. The high rate of co-residence in Taiwan demonstrates that the actual figure of old parents who can get financial support from their children should be much higher than the above reported figures. If the old parents do not live with their adult children, in theory or by law, their children are obliged to give them financial support according to their needs, but in practice this obligation is not certainly guaranteed due to different objective and subjective difficulties.

Secondly, savings. Actually it is a kind of personal provision, not a social provision. But it is a good substitute if there is no adequate public provision. According to Table 5.4 in the previous chapter, all three measurements indicated that the savings rate in Taiwan is very high and much higher than most developed countries. So it is not surprising that there was more than 10% of old people depending on only this source of income. Its level might differ greatly, but we could not tell.

Thirdly, retirement payment. In the author's survey although 100% of them could get a retirement payment, only 60% of retirees in GEI and 30% in LI, or 37.6% in total, mentioned that their gross income after retiring was sufficient for their daily needs. Both in GEI and in LI retirement payments are based on monthly wages or insured wages. The maximum of lump sum retirement payments are about 97 months in GEI and 90 months in LI. But both wages and insured wages of GEI are better than LI, so the retirement payments of GEI are also better than LI. For GEI retirees, if they opt for monthly payments in the occupational scheme, their highest pension rate not only may be as high as 90% of the monthly basic wage, but also can keep up with the wage index. So their retirement payments are generally sufficient for their daily needs though the basic wage is on average about a half of gross wage. Fortunately, as we have mentioned before, this basic wage will be adjusted according to the wage index, so does its pension. For the retirees who can receive large amount of lump sum

payments, they may use their payments as capital to invest or to deposit in the preferential account in the Bank of Taiwan (for only GEI retirees), then they can depend on this payments as old age provision. But for the retirees who receive only small amount of lump sum payments, they are certainly much more disadvantaged than the previous two groups of retirees. They are the group of retirees who need to depend on other sources of income.

Fourthly, assistance and relief. There exists public assistance and charity relief. Because only the figures of the former are available, so we discuss only the former. There are three administrative areas in the Taiwan area, ie, Taipei City, Kaohsiung City and Taiwan Province. Nowadays the theoretical 'subsistence levels' are defined by the three local authorities as the 'minimum living expenditure' which are 40% of per capita regular family expenditure of the previous year in Taipei City or one third per capita personal disposable income of the previous year in Kaohsiung City and Taiwan Province. At present the 'official' subsistence levels or minimum living expenditure are NT\$2,100 per month in Taipei City, NT\$2,000 in Kaohsiung City and NT\$1,950 in Taiwan Province. But they have no relation to the level of assistance. They are only used as a standard to decide the qualification or the entitlement of applicants into different groups of beneficiaries. However, only those who have no income at all are qualified to receive regular cash assistance. The assistance levels are NT\$1,800 per person per month and NT\$1,000 per person for the additional qualified beneficiaries in Taipei City and NT\$1,200 per person per month for all qualified persons in Kaohsiung City and Taiwan Province. As the assistance levels are less than the official or theoretical subsistence level, they are by definition not sufficient for the beneficiaries, especially old people. It is theoretically impossible for the elderly to live on only this source of income.

Fifthly, employment. Due to health conditions and other reasons, the rate of employment for old people is gradually reduced as they grow older (see Table 6.10). In addition, due to the restriction of their educational attainments (more than 54% of

them were illiterate) the main industry that they could engage in is agriculture. The employment rate of old people in agriculture was as high as 40.5%. Referring to the tables of industry and occupation (see Table A10 in Appendix) and the fact that employees might have to retire at the age of 60 years according to the Labour Standard Law, we might be quite sure that the 27% old people who engaged in the industry of 'commerce' were certainly in the self-employed category. And most old people who served in the industry of 'government, community and individual services' were certainly the workers of the lowest level such as porters and cleaners. Therefore, for many old people, if they lived only on their own earnings from their job, their economic situations could not be very good. At least, they were low-income earners.

However, as many old people did depend on several sources of income, so we cannot judge their economic situations by only one source of income. As the gross income of old people is not available, their self-assessment might be used as a reference. From the closed-ended questionnaire in survey A in Taipei City, there were 5.1% old people mentioning that they were well-off; 69.8% still alright, not good, not bad; and the remaining 25.1% thought that they were poor (Tang, et al, 25). However, this self-assessment implies a serious limitation. This limitation can be clearly demonstrated by the evidence in the author's survey. According to the author's survey, there were only 60% in GEI and 30% in LI having 'sufficient' (including 'stringent') gross income for their daily living expenditure. Due to the multiplicity and the irregularity of sources of income, the valid gross income in both GEI and LI are not available. As the retirement payments in both insurance schemes and occupational schemes are earnings-related in Taiwan, there should be also a close relationship between their previous wages and their savings and investment. So their previous monthly wages may be used as the indicator or substitute for their 'gross income' to justify the validity of their subjective self-assessment. Furthermore, because only GEI retirees received both insurance and occupational payments, so the test will concentrate on GEI retirees.



According to the author's survey (see Table 6.11), there seemed to be no clearly correlation between the self-assessed 'sufficiency' of gross income and the level of monthly wage. Many people felt that their gross income were not sufficient though their monthly wages were actually in higher wage groups. On the contrary, many people felt their gross income were sufficient though their wages were actually in lower wage groups. Although this significant phenomenon can be partly explained by the factors of family size and children (as a source of income), it was quite clear that subjective self-assessments of the people were quite arbitrary.

Table 6.11 Pre-Retirement Monthly Wages and The Sufficiency of After-Retirement Gross Income in GEI, 1984

Monthly wage (NT\$ 1,000)	Sufficient	Sufficient but stringent	Not Sufficient	Total
- 10	1	2	3	6
11 - 15	47	7	47	101
16 - 20	81	16	56	153
21 - 25	33	7	23	63
26 - 30	10	1	7	18
31 - 35	6	0	4	10
36 - 40	3	3	5	11
41 - 44	4	0	1	5
Total	185	36	146	367
N				
%	50.4	9.8	39.8	100.0

Note: number of missing observations = 46

Source: the author's survey

Other more useful information provided in Tang's survey was showed in Table 6.12. Apart from the item of 'others', its items can be measured by a scale of necessity. From the top, 'basic living expenditure' is the most necessary item; to the bottom, 'donations' is the most voluntary one; in the middle, 'social life expenditure' (ie, money spent on both red and white invitations) is the semi-necessary or semi-voluntary one. In normal case, even for the general people or families, their largest expenditure item is the first one, 'basic living expenditure', let alone the low-income or poor families or persons. In theory, as there were only 90.4% of

respondents having their largest item in 'basic living expenditure', the remaining 9.6% of them should be better-off. Moreover, for those who voluntarily spent the largest amount of money on 'tourist travelling' (ie, away from home for holiday), either abroad or domestic, they were also certainly better-off without any doubt. Furthermore, because some better-off old people might be too old or too ill to travel any more, or they were not keen to travel, so the figure, 11.5%, could even be considered as the minimum number of the people who were relatively well-off in Taiwan because there might be many rich people spending their largest amount of money on 'basic living'. These practical evidence shows that there is a significant difference between subjective self-assessment and objective other-judgement of the economic situation of the people in Taiwan. As for the figure of the poor, because the official assistance level is lower than either theoretical or official subsistence levels, so if the official assistance can be raised to the same level as official subsistence, ie, the official poverty line, then the number of old beneficiaries will be greatly increased. It would be definitely larger than the existing figure, 0.9%. Moreover, on economic affairs, as most Chinese would tend to hide their wealth and to pretend they were poor under the motivation of self-protection, tax avoidance and applying for assistance, so the figure of the poor in Tang's survey as 25% would be an over-assessed one. The number of the poor can be estimated as falling between 0.9% and 25% by available evidence. The understanding of real economic situation, especially poverty, still needs more works to clarify.

Table 6.12 The Largest Two Expenditure Items of Old People in Taipei City, 1983

item	N	%	measurement
Basic living expenditure	529	90.4	highly-compulsory
Medical expenditure	256	43.8	
Social life expenditure	190	32.5	semi-compulsory
Tourist travelling	67	11.5	
Donations	16	2.7	highly-voluntary
Others	27	4.6	
Total samples	585	100.0	

Note: The questionnaire was allowed to choose two items from the closed-ended questions.

Sources: Tang, 30

### 6.5. The Health of Old People

Generally the health of old people has a close relation with their ages. The older they are, the worse their health, and the more health services they need. Many empirical surveys in Taiwan show that health services are overwhelmingly considered as the first priority in the basic needs of old people (Bai, et al, 51; Tang, et al, 38). Even in a general survey, health is also considered as the most important necessity in daily life for all people (DGBAS, 1982:33). So the health situation of old people is the main focus of this section.

According to Tang's survey in Taipei City, there were 45.0% old people healthy, 52.4% unhealthy and 2.6% disabled (34). These figures are very precise, but their questions are many. First, we know that the populations of Taipei City and the whole Taiwan area are different, so it is quite difficult for us to justify its validity when we use the figures of Taipei City in substitute for those of the Taiwan area. Second, health is a very complicated phenomenon. There is no clear-cut line between health and illness. Instead, there is a zone of transition between them. And this zone may be quite wide or quite narrow. It just depends on different persons. Third, that survey did not give an objective criterion to decide if a person was healthy or not. The decision

was quite subjectively or even arbitrarily made by the interviewees or interviewers. In order to avoid asking people abstract questions and committing the same error, in my survey in 1985, I only asked people empirical things that happened in the last year. For example, "Have you seen a doctor in the past year?". The results are summarised as Table 6.13.

Table 6.13 Visiting a Doctor by Retirees in Taiwan, 1984

Group	Having seen a doctor					never seen a doctor
	Out-patient			In- patient	subtotal	
	occasional	frequent	subtotal			
GEI	16.7	27.8	44.5	3.9	48.4	51.6
LI	30.9	23.0	53.9	6.3	60.2	39.8
Total	27.3	24.2	51.5	5.7	57.2	42.8

Note: The total of GEI and LI has been weighted.

Source: author's survey

If we define a person who never visited a doctor in the past year as 'healthy', then by this table, we could conclude that there were 42.8% old people healthy, the remaining 57.2% unhealthy; or there were 42.8% healthy, 27.3% in transition and 29.9% (=24.2 + 5.7) diseased if we considered the occasional patients as in transition. However, because in my survey most retirees retired before 65 years old and their average age was only 62.2 years, so not all of them could be considered as old people by definition. The validity of the author's figures as the indicators of health of old people could be over-estimated. For the old people, as their health was generally worse than younger ordinary people, so when we apply these figures, we should keep in mind that the health situations of older people will be definitely worse than this. As for their actual situations, a separate investigation is necessary.

Besides, there would be another risk to under-estimate the frequencies of visiting a doctor because the low income people might not visit a doctor even when they needed to. Some other people might just go to a pharmacist to buy medicine by themselves (because in Taiwan a prescription is not necessary to buy drugs). On the

contrary, some other people might also visit a doctor even though they are healthy. This is in particular true as there are free health services under health insurance and sub-universal health service in Taiwan. The former might cause an over-evaluation of the health situation of the people and the latter would cause an under-evaluation.

According to Cheng's survey on old people in Taiwan area, there were 357 diseased persons in his 986 respondents. That is, the figure of 'unhealthy' was 36.2% (see Table 6.14). It seemed quite reasonable because it was lower than Tang' figure and higher than the author's one. However, apart from the same criticisms as for mine, Cheng's survey might face another criticism that his methodology to record for every diseased person only one disease could be unreal, because many old people might be suffering from several diseases simultaneously. In that case, his calculation of medical expenditure would be a little over-estimated for each disease. Of course, it was in fact difficult to separate them administratively. Moreover, the length of time of being diseased of different people might differ greatly even if they were suffering the same disease. So we could not get a general idea of the aggregate medical expenditure of old people by the weekly cost in Table 6.14. However, we might roughly conclude that the health situation of old people was like the following: 42.8% healthy, 36.2% unhealthy, and the remaining 21.0% in transition.

Table 6.14 Morbidity and Medical Expenditure of Old people  
in Taiwan Area, 1985

Name of Disease	** N	Morbidity %	NT\$/week
1.Hypertensive disease	72	20.2	204
2.Disease of respiratory system	71	19.9	356
3.Disease of digestive system	32	9.0	693
4.Disease of musculoskelital system and connective tissue	32	9.0	435
5.Diabetes mellitus	27	7.6	594
6.Vertigo	26	7.3	400
7.Headache	18	5.0	628
7.Cerebral apoplexy	17	4.8	1,376
9.Disease of heart and vessel	11	3.1	1.705
11.Disease of nervous system	10	2.8	600
12.Disease of kidney and urinary system	10	2.8	585
10.Other heart disease	8	2.2	813
13.Disorder of eye	6	1.7	2,453
14.Tooth disease	5	1.4	780
15.Neoplasm/cancer	3	0.8	3,400
16.Mental disorder/psychoses	2	0.6	625
17.Disease of ear nose and throat	2	0.6	150
18.Senility	2	0.6	550
19.Disease of skin	1	0.3	1,000
20.Others	2	0.6	3,600
Total	357	100.0	

Note: 1)\*\* = diseased persons

2)The total sample is 986.

Source: Cheng, 6

Referring to Cheng's survey, the diseases that are of highest morbidity are diseases of the respiratory system and hypertensive disease. The research figures showed that the diseases of high morbidity are not simultaneously those requiring expensive medical treatment. This could imply that many old people might go without medical care or delay visiting a doctor due to high medical expenditure. The disease of highest expenditure is neoplasm or cancer. It costs a patient about NT\$3,400 per week. The next costly ones are disorder of the eye, heart and blood vessel disease, cerebral apoplexy and disease of skin.

As old people certainly suffer from diseases, the incidence of their medical expenditure is also a very vital problem. According to the author's survey, about 60%

of diseased retirees had to self-finance their medical expenditure (see Table 6.15). Only the retirees who were veterans or the dependants of military servants could get free medical service from veteran or military hospitals. After 1985, several subordinate health insurance schemes for GEI retirees and their spouses were introduced. More old people were included. However, as the number of GEI retirees is only a quarter of total of GEI and LI retirees, and as long as there is no health insurance for the LI retirees, it is impossible to reduce this high rate of self-financing medical expenditure significantly. The rate of self-financing of medical expenditure among all old people would be much higher than this 60% figure from a survey of recent retirees. Therefore, the 60% of self-financed medical expenditure would be only a minimum. So medical expenditure is definitely a great burden for all families with old people.

Table 6.15 The Incidence of Medical Expenditure  
of Retirees in Taiwan, 1984 (%)

Group	Self-financed	Health Insurance	Free Medical Services	Total
GEI	9.9	29.1	9.4	48.4(N=413)
	20.5	60.1	19.4	100.0
LI	43.0	0.6	16.6	60.2(N=512)
	71.4	1.0	27.6	100.0
Total	34.6	7.8	14.8	57.2
	60.5	13.6	25.9	100.0

Note: (related to Table 6.13)

Source: author's survey

Although old people are vulnerable to suffer from so many diseases, not all these diseases will be the cause of their deaths. If we compare the morbidity in Table 6.14 with the ten or even five leading causes of death (see Table 6.16), we will find that they are not the same. Apart from accident, those ten leading causes of deaths of total population were also the main causes of deaths of old people aged 65 years and over, because the percentage of old people was only about 5% of total population, but



the proportion of the ten leading causes of deaths of old people was as high as 49%. If only in the age group of 65 to 69, this rate was even up to 83%, but it would be less than 50% if the age group was over 90 years old (see Table A11 in Appendix). Therefore, the lower the age groups of old people, the more deaths were caused by these ten leading diseases. Certainly, the ten leading diseases of different age groups or sexes were not totally the same, but their differences were minor.

Table 6.16 The Ten Leading Causes of Death in Taiwan, 1984

Causes	Total	65+	%
1.Malignant neoplasms	15 467	6 227	40.3
2.Cerebrovascular disease	14 801	9 569	64.7
3.Accident	11 559	1 506	13.0
4.Heart disease	8 676	5 750	66.3
5.Hypertensive disease	3 302	2 415	73.1
6.Chronic liver disease and cirrhosis	3 143	1 020	32.5
7.Diabetes mellitus	2 687	1 681	62.6
8.Bronchitis, emphysema and asthma	2 479	1 914	77.2
9.Nephritis, nephrotic syndrome and nephrosis	2 130	1 094	51.4
10.Tuberculosis	2 113	1 186	56.1
Subtotal	66 357	32 362	48.8
All other causes	22 415	11 803	52.7
Total	88 772	44 165	49.8

Source: DOH, 1985: 74, 83-87

Although sickness is the main cause of the health problem, however, the people who are not diseased are not definitely healthy. They might be too old or too weak to be healthy. In that case there is no medical treatment that can help them. Therefore, the morbidity rate may still not be a good indicator of health. In the field of social policy we might be more interested to know how many old people need special care or attendance for their daily lives. According to a health survey conducted by the College of Medicine, National Taiwan University, in 1986 (Cheng, 1986), there were 86.4% of old people in Taiwan area who could take care of their own lives, whether they were healthy or not. Among those who had to depend on other persons' care, the 2.3% paralysed elderly definitely needed full-time care from members of their

families, 6.5% needed help only for special activities and the rest just needed company in order to avoid any accident. Nowadays the number of old people in Taiwan amount to only 5%, so the burden of old people should not be very heavy. But when a greater proportion of the population falls into the senior citizen category, the situation will be very difficult if we have no proper provisions in that time.

#### **6.6. The Social Participation of Old People**

Man is a social animal. People cannot be isolated from society though they are retired or they are old. All people more or less join some kind of social activities unless they are too ill to do so. From this point of view, the frequency of social participation might be considered as an indicator of the health of old people. Social participation or social activities here are conventionally defined as non-economic or non-profit activities. Of course, these activities can further be divided into two groups: egoistic and altruistic; or recreational activities and voluntary services. The discussion will be based on this classification.

Firstly, we begin with recreational activities. According to the author's survey, about 30.4% of retirees joined seven different kinds of social activities. In detail, there were about 45.8% retirees in GEI and 25.2% retirees in LI participating in these social activities (see Table 6.17). And of these most of them joined friendly and sporting activities.

Table 6.17 Recreational Activities of Retirees in Taiwan, 1985

Activities	N		%		
	GEI	LI	GEI	LI	SUM
Friendly associational	104	51	25.2	10.0	13.2
Educational/training	10	6	2.4	1.2	1.4
Political	9	20	2.2	3.9	3.5
Academic	9	2	2.2	0.4	0.8
Community	16	11	3.9	2.1	2.5
Music and artist	3	0	0.7	0.0	0.1
Sporting	76	63	18.4	12.3	13.6
Religious	25	18	6.1	3.6	4.1
Total	189	129	45.8	25.2	30.4

Note: Activities are independent. The SUM has been weighted.

Source: author's survey

As these figures were collected from an open questionnaire, they tend to be too low because there were no hints to remind the interviewees. However, these figures would be quite meaningful because only the activities which were most popular and were participated in by the interviewee with the greatest enthusiasm would be written down. For example, many retirees of GEI were members of the Kuomintang (National Party) and they were supposed to take part in political activities normally, but this kind of activity was meaningful for only 2.2% of them. Therefore, only activities of personal interest of the retirees could be indicated by these figures.

As friendly associational activities and sporting activities are the most popular ones, it is worth analysing them in detail. Under the item of friendly associational activities, there are associations of old age, schoolmates, colleagues, home county or home province, majiang playing, LION International, women's club, community group, etc.. Among them the peer group, ie, old age group, have the biggest amount of participants. The next one is community activities. Among Sporting activities there are tai-chi boxing, morning jogging, folk dancing, Chinese kung-fu, swimming, mountain climbing, morning exercise, fishing, ball playing, etc.. The most popular ones are

mountain climbing, morning jogging and morning exercise. I learnt from my interviewing in Taipei that the activities of old age associations and sport are generally the same. The main activities of old age associations always are of a sporting nature. And the old people who always have the same sports together also often organise their own old age groups. Old people always get up and go outdoors before dawn to take part of their morning sporting activities. After their physical exercise, they start chatting and having their snacks together until sunrise. And then they go home separately. If there is no economic and health problem, their lives are really very enjoyable.

As for voluntary service, because participation depends not only on the welfare of other people, but also the capacity of the volunteers, so these figures can be expected to be much lower than for recreational activities. According to the latest census on old people aged 70 years and over in Taipei City, only 8.1% of old people said that they would like to join such activities (Bai, 1987:100). This seems quite reasonable and believable. In that census the voluntary service was divided into five groups: child-caring, helping the poor and the sick, social visit, arts teaching and academic teaching. Most people preferred to join a social visit. Others preferred the teaching of arts or knowledge. The least ones were involved in helping the poor and the sick and to look after children. It is important to remember that this survey was for people over 70.

The results were much better for the same question in another survey on the younger population of old people in Taipei City (see Table 6.18). Its highest item could even be as high as 33.2%. The difference was really very large. When we made a scrutiny into the questionnaire of this survey, we found that the interviewees were directly asked, "What kind of voluntary services listed below do you like to join?" I do not think the old interviewees could understand the meaning of "voluntary services". They just thought that the government wanted to find some paid jobs for them and asked them what kind of job they liked to do. So they expressed enthusiastically so

and so they liked to do. This was the reason why their figures were so high. The reason is very clear. Many jobs listed in the table are available at any time for them. There is no need for the government to arrange these for them. Therefore, the figures may be precise, but their meanings are invalid.

Table 6.18 The Voluntary Services of Old People in Taipei City

Items	N	%
1.Security patrol of community	194	33.2
2.Child-caring in community	119	20.3
3.Casher of car park	117	20.0
4.Scavenger of community	101	17.3
5.Family repairing work	74	12.6
6.Helping the sick and the disabled	69	11.8
7.Taking care of the in-patient old	69	11.8
8.Pupils' homework tutor	61	10.4
9.Missionary work in church	57	9.7
10.Extra-curricular activities assistant	57	9.7
11.Services in make-up school	53	9.1
12.Painting and calligraphy teaching	39	6.7
13.Traffic warden	37	6.3
14.Chinese Kung-fu teaching	16	2.7
15.Music teaching	10	1.7
16.Drama teaching	8	1.4
17.Other	52	8.9
Total	585	100.0

Note: Multiple choice.

Source: Tang, et al, 39

## 6.7. Summary

Though the number of old people in Taiwan is only about 5% of the total population, this number will be changing in the coming decades. The issue of population transition must be taken into account in the formation of social security policy. According to the discussion on the population projections, when the population of Taiwan reaches its ZPG state, the number of old people will be about 3.5 to 4.3 million, ie, 14.8% to 16.9% of total population. Certainly the rates of dependency and retirement will be very different from today.

Both in theory and in practice, the family plays a vital role in the social security

provision for old people in Chinese society. Now there are about 67% old people living with their children. However, the family has its limits in dealing with the problems of 21-22 thousand of single persons and quite a large number of couples without children. Apart from the excess of males, the number of these groups of people is about 16% (calculated based on the rate of married people without children, 13.7%) of old people. Nowadays old people's homes are the main ways available to tackle this problem though their standard and capacity are far from satisfactory.

As for the economic situations of old people, generally, they are also not very satisfactory. We have discussed their sources and the levels of income. We find that there is a negative relation with their ages: the older they are, the more of them are disadvantaged in their economic situations. The number of the poor might be ranged from 0.9% to 25% in the population of old people, they are the targeted group of people of our social security policy.

In addition at least 36% of old people were not in good health, and very few of them can get free medical care, so medical expenditure is certainly one of the biggest items in the daily expenditure of most old people or families with old people. This economic burden must be taken into account in the formation of social security policy. Lastly, since only healthy people can join social activities, the frequency of social participation, 30.4%, could be also a reliable indicator, at least a supplementary indicator, of the health of old people.

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## CHAPTER 7

### THE STRUCTURE OF EXISTING PROVISION IN TAIWAN

#### 7.1. Introduction

According to the classification in chapter 2, there are all types of social security provisions in Taiwan, but not all of them develop to the same level of maturity, and not all of them have an adequate provision for the old. In this chapter I plan to give a detailed discussion about the basic structure of existing provision in Taiwan. Only after such an overall discussion, will we have a basis for further discussion about their function and weakness.

In the field of social insurance, there are three main systems, that is, Labour Insurance (LI) (1950), Government Employees' Insurance (GEI) (1958) and Military Insurance (MI) (1950). Under the GEI system there are the Retired Government Employees' Insurance (RGEI) (1965), the Insurance for Teaching and Administrative Staff of Private Schools (ITASPS) (1980), the Health Insurance for Government Employees' Dependents (HIGED) (1982) and the Insurance for Retired Teaching and Administrative staff of Private Schools (IRTASPS) (1984). These schemes provide either cash benefit or health services to the old.

Social assistance provides benefits both in cash and in kind. Although the cash benefit level is quite limited and the test is very severe, it is a reliable source of assistance. Its level of benefit and number of beneficiaries will be given in the related section. The main types of benefit in kind are medical services and old people's homes. As for the latter, there are two different systems of public old people's home. One of them is restricted to old veterans.

There are three different occupational schemes for three different groups of employees in Taiwan, i.e., ordinary, government and military ones. Regretfully, only the data of the government occupational scheme is available because the ordinary

one has only just come into force recently and the military one is confidential. Therefore, the discussion is mainly focused on the government occupational scheme.

In Taiwan there are two kinds of free benefit in sub-universal schemes, that is, free employment service and free health service. But for old people the only kind of benefit is health service and only for very limited numbers of elderly. Due to shortage of data, only an estimate of its possible number of beneficiaries is given.

## **7.2. Social Insurance**

### **7.2.1. Primary Social Insurance**

There are three main systems of primary social insurance which are closely related to the old in Taiwan, that is, LI, GEI and MI. The other minor insurance provisions are subordinate to one of these main systems. The common characteristics of these systems are that they are contingency-comprehensive and employment-related. As they are comprehensive, each system includes several similar contingencies such as maternity, sickness, injury, old age and death. Of course, their contributions are also comprehensive. And as they are employment-related, all insured persons must be in the labour force. The persons who are employed by an employer are in principle included in the schemes, but the employers themselves are excluded. Whenever an employee is retired from his employment with or without a retirement payment, he will lose the entitlement to all other benefits. So, to be more precise, all these three insurance schemes are in fact comprehensive employees' schemes. Generally the difference is that LI includes employees employed by the private sector; and GEI and MI include only the employees employed by government. In an industrialised society most breadwinners of families are employees, this might be one of the effective ways to protect them and their families' lives from the insecurity of economy by protecting them from certain expected but uncertain contingencies. Compared to employers or even self-employed, it is also true that employees are more economically vulnerable. It might be the main reason why only employees are included and all employers and

the self-employed are excluded in Taiwan.

#### **7.2.1.1. Labour Insurance**

Before the retreat of current National Government from mainland China, there were several attempts to formulate and to implement social insurance for the general labour force. Firstly, in October 1943 there was an experimental insurance scheme for the salt workers in Sichuan Province where the provisional capital was in during the anti-Japanese War. Later, after the promulgation of the Constitution on the first January 1947, a preliminary Central Bureau of Social Insurance was immediately established in order to prepare a draft of social insurance law to carry out the requirement of the Constitution. Unfortunately, due to the outbreak of civil war with the Communist Party and the retreat to Taiwan in 1949, this attempt failed. However, just a few months after the National Government moved to Taiwan, the Labour Insurance (LI) was promulgated in February 1950 by Taiwan Provincial Government by an administrative regulation. This regulation was one year earlier than the Communist counterpart in mainland China, so it was not a reflection or copy of mainland China. Just as there was a policy to stabilize the farmers by implementing rural land reform, there was a political policy to stabilize the non-farming workers by enforcing this labour Insurance.

Due to lack of experience in setting up a new administrative system, at the first step this insurance covered only the workers in public and private enterprises employing over 200 persons. The coverage was extended from the enterprises employing over 200 persons to 100 persons and then to 20 persons within the first year. Later, it was extended to include those employing over 10 persons in 1955. And lastly, all industrial and business units employing over 5 persons were included in 1979. There has been no further extension to include the insured units employing less than five persons due to the difficulty in the collection of contributions and the cost of administration. However, after these several stages of extension, the covered insured persons of this scheme nowadays has reached 52.0% of labour force and

21.8% of total population in 1985.

Before July 1958 the insurance was carried out not only by local government's regulations but also by different regulations for different industrial workers. For example, union workers, fishermen and sugar cane farmers were covered under different regulations though they were administered under the same insurer, Department of Labour Insurance, Provincial Taiwan Life Insurance Company, at that time. Moreover, there were also five different supervisory authorities to supervise the operation of the insurance affairs. In order to improve the efficiency of administration, these regulations and supervisory organisations were integrated into a single national insurance law, ie, Labour Insurance Act, and a single supervision authority respectively in 1958. Most of these changes were referred to the example of GEI law which was pronounced in the beginning of the same year. This law was also enforced by a unique and independent insurer, the Bureau of Labour Insurance for Taiwan and Fukien Area (BLITF), although it is still an agency under Taiwan Province Government.

The making of this new central law was based on a principle to improve benefits without increasing the financing burden of government, employers and employees. Retaining the contributions rates unchanged, compared with the largest scheme before the unification, the following benefits were more or less increased:

1. old age benefits increased from 15 months to 45 months,
2. funeral allowances for dependants increased from one month to one and a half or to two months depending on status and age,
3. ordinary death benefits increased from 20 months to 27 months,
4. occupational death benefits increased from 36 months to 37 months,
5. ordinary disability benefits increased form 36 months to 40 months,
6. occupational disability benefits increased from 54 months to 60 months,
7. the number of occupational diseases increased from 10 to 21,

8. the length of ordinary hospitalisation increased from 50 days to 4 months,
9. the length of occupational hospitalisation increased from 6 months to 7 months,
10. the food of hospitalisation increased from only 50% to 100%,
11. missing allowance increased from two thirds to 70%.

No financing basis was given why such levels of benefits should be made. So the increase of benefits level was quite arbitrary.

At the inception of this insurance, the contingencies included only injury, disability, maternity, old age and death. Among them maternity covered only the insured, the maternity of spouse was not included until 1953's amendment. From the beginning, the contribution rate was only 3% of the monthly wage of the insured persons, but the insured persons paid only 20% of it, the rest was shared by employer (60%) and government (20%).

All benefits were paid in cash in the beginning. The injury benefit was paid regularly for 6 months for ordinary injury and 12 months for industrial injury. Other benefits were paid as a lump sum. Among them old age benefit was an amount of one monthly insured wage for each year's insurance. That is, if a retiree has insured for 5 years, then he can get 5 months' insured wage as his old age benefit. For the sake of financial soundness, the ceiling of benefit was restricted to only 15 months. So it was not a very generous payment.

In the amendment of 1956 the scheme began to provide in-kind benefit for the contingency of sickness, but it was restricted to only inpatient service in order to relieve the high medical expenditure of the insured. At the same time, the contribution rate was increased from 3% to 4%, ie, only 1% was added for the newly provided inpatient service. The maximal length of inpatient medical care was only 50 days for ordinary injury and disease and 6 months for industrial ones. The only generous offer was the phasing out of the ceiling of old age benefit because there was no point to

set such a ceiling as the longest insured persons was not up to six years at that time. Unfortunately this generosity did not last many years, the formal national Labour Insurance Law of 1958 reset a higher ceiling of 45 months. In this amendment, the retirees still gets only one month's insured wage as payments for the first 15 years' insurance, but afterwards he will get two months' insured wage for each additional year's insurance. If there were no ceiling, the amount of payments could be too high to pay by the insurer. That would be a threat to the soundness of financing of the system in the future.

In an amendment in 1968 outpatient medical care was introduced due to the massive abuse of inpatient services from both the delay of check-out of the inpatients and the hospitalisation of the minor diseased persons. At the same time the limit to the length of inpatient benefit was also phased out because this would cause difficulties for those who were really in need. Following the providing of outpatient service, the contribution rate rose from 4% to 8% and subject to a ceiling which would adjust according to wage index. This ceiling was NT\$14,400 in 1984. The contribution was shared by only employee (20%) and employer (80%), no government sharing any more.

The Taiwan Provincial Government continued to budget to pay 8% of total contribution revenue as a subsidy to cover administrative expenditure in this new central law though the legislators also knew the same kind of rates were only 4.38% in Canada, 5.11% in France and 3.45% Norway in 1953. But the actual administrative was not generally as high as 8% of contribution revenue, so the subsidy was reduced to 5.5% in 1979.

Though unemployment was added as a contingency by the legislators, it never really come into force in the later three amendments by the objections of the Executive Yuan. Their main reasons for this objection were several. Firstly, they emphasised that the unemployment rate was still very low. It was as low as about 2%

at that time. Even in 1985 it was only 2.9%. So it was not a serious social problem. A more important issue was how to improve the technology and productivity of economic activities. They preferred employment services to unemployment insurance. In employment services the government provides not only placement services but also vocational training. Under such circumstances, unemployment insurance was really not so urgent. Secondly, government was worried about the disincentive of people to work if this scheme provided long-term unemployment benefits. On the other hand, if our aim was to provide only short-term benefit, eg, one year or even half a year's benefit, most families would still be able to provide such security. Especially, if the long-term unemployment benefits were financed by general revenue, as the insured persons were the minority of the total population, this financing would be no less than taxing the majority of non-insured persons to subsidise the minority of insured persons. It would be unfair to the non-insured majority. Thirdly, as we have mentioned in chapter 5, Chinese people generally prefer to create their own business, either to be an employer or a self-employed, rather than being employed if there is an opportunity. If he is a petty self-employed, it would be very difficult to judge whether a person is in employment or not. For this reason the administration of this scheme would be much more difficult in Chinese society than western countries.

At present the benefits of LI can be divided into two categories, ordinary and industrial. The former includes maternity, injury and sickness, medical care, disability, (unemployment), old age and death; the latter includes injury and sickness, medical care, disability and death. Apart from medical care, all benefits of these two categories are paid in cash. The contribution for ordinary contingencies is shared by employee and employer. But the premium for industrial contingencies is borne only by the employer according to the Schedule of Premium Rates for Occupational Injury which is prescribed by the competent central authority subject to the approval of the Executive Yuan and readjusted once every three years. Its rate is from 0.2% to 3.0% at present; and its average is about 0.8%. In order to avoid arguments from different industries,



the rates for different industries are confidential. No figure has ever been declared. No public discussion has been made, even only for academic purposes.

At present the coverage of the insured includes all workers aged from 14 to 60 who are employed by an employer employing at least 5 persons or more in the following industrial units:

1. public or private factory, mine, saltern, ranch, pasturage, forest, tea plantation, communication and transportation enterprise and public utility;
2. commercial shop or firm;
3. journalistic, cultural, non-profit organisation or cooperative enterprise;
4. technicians, drivers and office boys in government agencies, public or private schools;
5. staff employed by a government agency, public school under a contract;
6. technicians receiving training at a government authorised vocational training organisation;
7. full time fishermen and
8. union members without permanent employers.

All workers within the above industries are compulsorily included in the scheme; and the workers in other industries not listing above can participate in this scheme voluntarily if their employers want to do so.

The above industrial workers can also be classified by the standard international industry classification by the insurer of LI in its statistical yearbook. So there should not be any industry being excluded by the law. Even if there were, their workers still could join the scheme voluntarily. Therefore, if there are any workers who are excluded by the scheme, its reason is definitely not the industries they belong to being excluded by the scheme, it should be that either their employers employ less than 5 persons or they themselves are employers or self-employed or unpaid domestic workers.

The only benefit that is closely related to the elderly is the lump sum old age benefit. The amount of this payment is proportional to one's length of contribution. When a man retires at 60 or a woman at 55, or a man aged 55 having worked in the pit up to 5 years, they still can receive an amount of benefit that is equal to a given sum of monthly insured wage in full rate. By law, the insured wage should be equal to one's actual wage if one's wage was not over the ceiling. But as many employers want to reduce their burden of contributions, they always contributed only part of the actual wage as insured wage. As the actual wage of an insured person will change during the insured period, so will his insured wage. So the insured wage which is used as the base to calculate one's benefit is the average of the latest six months' insured wage if his insured years are over three years. But if his insured years are less than three years, that should be the average of the whole period. In counting one's old age payment, it is one month's insured wage for each of one year's contribution; but they will be two month's insured wage for each one year's contribution from 16th year on until up to the ceiling of 45 months' wage. In the case of men of 55 years and women of 50 years, if they have contributed for 10 years, then they can receive a reduced benefit which is 4% less for each year short of qualified retirement age. In 1984 there were 19,630 retirees in this scheme. 79.5% of them retired with full rate benefit and the remaining 20.5% retired with reduced benefit. But there will be no benefit for those who contribute less than one year.

#### **7.2.1.2. Government Employees' Insurance**

In 1947 the first draft of 'Government Employees' Insurance' (GEI) was prepared by the Ministry of Personnel, Examination Yuan. This Bill had also been sent to the Legislative Yuan by the Executive Yuan and the Examination Yuan together for approval. Later, due to the retreat of the Nationalist Government from mainland China to Taiwan, this Bill was postponed until the request of the Examination Yuan was made in 1955. After three years' procedure in the Legislative Yuan, the GEI law was finally passed and promulgated in January 1958 as a formal central government law.

This insurance gives protection to all persons who are employed by government administrative organisations, public educational institutions, judiciary organisations, public health institutions, government owned enterprises and public representative organisations. That is, all persons who get regular pay from government are included in this scheme.

Formally the coverage also includes dependants such as parents, spouse and children for health service (in Article 11), but its enforcement has to be prescribed in a separate law. The reason for this is that the increase of each group of dependants will be not only a great increase of insured persons, but also a great complexity of the administration of benefit in kind. Before this health insurance for dependants was provided, the government provided 70% of reimbursement for inpatient expenditure for the dependants of government employees subject to a maximum each year in order to relieve the hardship of the employees to some degree. However, a dependent insurance scheme would be a better policy, so, finally, the subordinate law for dependants was promulgated in 1982 and came into force in the same year. The range of contribution for each dependant is between 3% and 5% of insured wage of GEI insured person, but it is 3% in the inception. But the maximum of contributions is 5 dependants. That is, if a GEI insured person has more than 5 dependants, he needs to pay only five dependants' contributions.

However, in its first stage the coverage of the above subordinate law included only the spouse. Because the benefit of this subordinate law included only medical service for sickness and injury, so it was named as *Health Insurance for Government Employees' Dependants* (HIGED). At this stage the contribution was prescribed as 3% and it was equally shared by the insured and the government. Besides, the beneficiaries of this subordinate law also have to pay 10% of out-patient medicine cost. The remaining costs are borne by the insurer.

The benefits of GEI scheme are provided for contingencies such as maternity,

sickness and injury, disability, old age and death. For the death of dependants, there is a funeral allowance. Originally this scheme also had a provision to refund premium to the ex-insured if they had never claimed any benefit. But this provision was abolished in the only amendment in 1974. The scheme provides free medical care for maternity, sickness and injury and cash benefits for all other contingencies.

The contribution rate was 7% of insured person's monthly insured salary. Originally the insured salary was equal to actual salary. But because the months of occupational old age payments were adjusted too high to finance, so, from 1978 on, with corresponding change in occupational payments, the government re-defined the insured salary as only 'basic salary' in order to relieve the fiscal burden. The contribution rate was raised from 7% to 9% in 1974. The insured person pays only 35% of this contribution, the remaining 65% is borne by his employer, ie, government. This contribution will be exempted if an insured person has contributed for 30 years.

By a separate government regulation of 1964, the coverage of this scheme was extended to include retired government employees by a scheme named as *Retired Government Employees' Insurance* (RGEI). The insured retirees in this new scheme are entitled to all benefits as those of present government employees. But they cannot receive their old age benefit though they are retired. In fact this scheme is like a measure of 'deferred retirement', because the insured persons in RGEI can 'retire' again within two years. When they 'retire' again, they can receive their retirement payments and will lose the entitlements to all other benefits. The main difference is that if they decide to join RGEI, then they have to pay the full rate of contribution by themselves according to the last monthly salary when they retired. But if their total insured years of GEI and RGEI are over 30 years, their contributions will be exempted. This scheme is voluntary, not compulsory. From the point of insured persons, the only one requirement for the participants is that they have to deposit their retirement payments in the scheme unless they want to 'retire' from RGEI again within two years. There will be no such claim of retirement payments after two years any more.

Due to the characteristic of voluntariness and the loss of the lump sum payments, not only is the rate of participation very low, but also the effect of reverse selection (ie, only the ill or diseased persons join the scheme) is very serious. In order to tackle the huge deficit in the RGEI scheme, from July 1985 on, this scheme will be replaced gradually by the introduction of two new schemes: the Health Insurance for Retired Government Employees (HIRGE) and the Health Insurance for Spouses of Retired Government Employees (HISRGE). All government employees who retire after that date can join only one of these two new schemes voluntarily without any special requirement and cannot join RGEI any longer. As for the insured in RGEI, they also have the option to transfer from RGEI to HIRGE or HISRGE and to claim back their deposited old age benefits. But this refund was valid only until the end of 1985. After that date, the transfer will still be available, but no refund of old age payments will be made any longer.

In theory as the death payment is still as high as 30 months as in GEI, it is only 6 months less than the maximum old age payment, there should be no strong incentive for the insured persons to transfer from RGEI to HIRGE or HISRGE. It would be particularly true if their total insured years has been or will be up to 30 years soon. But in practice the transfer was very significant. The number of the RGEI was reduced a half from 10 thousand to 5 thousand in the first year of the enforcement of the HIRGE and the HISRGE in 1985. The main reason might be that the retirees could only consume their old age benefits but not death benefits. The contribution rates of these two new schemes are the same, from 6% to 12% of insured wage. At its inception, they are 9%. The contributions are shared equally by insured persons and government. Besides half of a food bill for the first 30 days' inpatient and a full food bill afterwards, the insured have to pay 10% of out-patient medicine cost for their health services. The remaining costs are borne by the insurer on the same conditions as GEI insured persons.

The benefits that are available for old people in this scheme are old age payment

and medical care. The medical care for maternity, sickness and injury is free at the point of consumption. However, the insured person has to pay the registration fee. It is NT\$20 for each visit to a doctor. If the registration fee of some contracted hospitals is higher than NT\$20, the difference will be paid by the insurer.

The minimum qualification of old age payment is 5-year's contributions. For all government employees who have contributed more than 5 years, they are qualified to retire voluntarily at 60 years old or forced to retire compulsorily at 65 and to receive a lump sum retirement payment which is amounted to certain months' insured salaries. As the insured salary of the last month was always the highest one in one's working age, so it was prescribed as the base to calculate one's old age payment. The number of months' insured salaries is calculated according to the following formulas:

1. For the first two five years, each year's contributions will be entitled to one month's salary as payment, ie, 10 months for 10 years;
2. for the third five years, each year's contributions will be entitled to two months' salaries as payment, ie, 20 months for 15 years;
3. for the fourth five years, each year's contributions will be entitled to three months' salaries as payment, ie, 32 months for 19 years;
4. finally,for those have contributed for 20 years and over, their payment will be up to the maximum, 36 months' salaries, ie, 36 months for 20 years and over.

Under the same insurer and with the same standard of benefits as GEI, RGEI, HIGED, HIRGE and HISRGE, the Insurance for Teaching and Administrative Staff of Private Schools (ITASPS) was introduced in 1980; the Insurance for Retired Teaching and Administrative Staff of Private Schools (IRTASPS) was introduced in 1984; the Health Insurance for Retired Teaching and Administrative Staff of Private Schools (HIRTASPS) and the Health Insurance for Spouses of Retired Teaching and Administrative Staff of Private Schools (HISRTASPS) were introduced in 1986. The only one difference is that a half of the 65% of employers' contributions will be subsidised



by government.

In 1986 there are only 4 thousand insured persons in RGEI, 181 thousand in HIGED, 26 thousand in ITASPS and 0.4 thousand in HIRTASPS and HISRTASPS, so they are minor insurance schemes subordinate to GEI.

#### **7.2.1.3. Military Insurance**

Military Insurance (MI) was started from 1953. The coverage includes all military servants and non-military personnel employed by a military agency under a contract. The insured contingencies are disability, death and retirement. As there is a free medical service for all military servants, all benefits for these contingencies are paid in cash. According to different ranks, the contribution rates are prescribed from 3%–8% of monthly salary. At present the enforcing rates are 3% for soldiers, 4% for officers up to captain, 5% for officers up to colonel, and 6% for all senior officers. For all officers the insured pay only 35% of contributions, the remaining 65% is paid by government. But for the soldiers and the officers who have contributed for 30 years, the government will pay the full rate for them.

The calculation of retirement payment is quite similar to that of GEI. For those who do not serve up to 5 years, they receive only the refund of contributions that are paid by themselves without interest. For those who have served for 5 years and over, for the first two five-year and after the fifth five-year afterwards, the payment will be one month's salary for each year's service; in the third five-year, it will be 2 months' salaries for each year; in the fourth five-year, it will be 3 months' for each year. The maximum of payment is 45 months. All payments are in a lump sum.

#### **7.2.1.4. Health Insurance for Farmers**

The Health Insurance for Farmers (HIF) was initiated in October 1985. Recently it was still officially in an experimental stage, but practically no one expects it will be dropped in the future. At the end of 1985 there were 113 thousand farmers joining this provisional scheme through the Farmers' Associations they belonged to. As most



farmers are self-employed, the minimum wage of NT\$6,300 is adopted as the common insured wage for all farmers. The insured farmers pay only 40% of the contribution rate, 5.8%, ie, NT\$146.2 per month. Their Farmers' Associations pay for them 10% and government subsidise the remaining 50%. The contingencies include maternity, sickness, injury and death. The benefits for the first three contingencies are medical services, but for death the benefit is in cash. No further statistics are available.

### **7.2.2. Occupational Schemes: A Secondary Social Insurance**

Occupational schemes in Taiwan are quite similar to employers' liability because all of them are contributed to by employers only. However, the occupational schemes in Taiwan may be either public or private. But in Britain all occupational schemes are conventionally described as private schemes even though some of them such as civil service pensions are actually non-contributory and financed by general revenue. As the employer of public schemes, both for civil servants and military servants, is the government, so the schemes for public and military servants are a mixture of social insurance and universal allowances because, on one hand, their benefits are earnings-related and, on the other hand, their contributions are financed by general revenue without means-testing. So they might be considered as public schemes. As for the schemes for the private employees, they are a mixture of employer liability and a provident fund because, firstly, both contributions and benefits are earnings-related and the contributions are paid by employers only (Before the enforcement of the Labour Standard Law, non-statutory occupational provisions were normally contributed by both employers and employees.) and, secondly, the contributions must be fully-funded and are paid in lump sum for only one contingency: retirement. As the private schemes are financed by only the employers, so its amount of benefits will be subject to the ability and willingness of employers.

Just as the latest reform in British occupational schemes requires the schemes to contribute at least 4% of earnings, the Labour Standard Law in Taiwan requires employers to appropriate 2% to 15% of their payroll as the reserve for retirement

payment unless their previous provisions are the same or even better than the offer of this new law. Explicitly, this measure will face the same weakness as Britain, ie, uncertainty and vulnerability of the value of retirement payments in the future (Philipson and Walker, 203,214; Silburn, 38,39,55). Moreover, as private schemes are not centrally administered, many employers may have their own independent schemes, so there could be a problem of both labour mobility and the portability of occupational entitlement. In British experience, according to a study on the job changers in occupational schemes in 1979, there were 6.8% of contributors losing their pension entitlements, 10% withdrawing their membership, 7% having their pension transferred, 13% having their pension right preserved and about 60% accepting their refunds (Philipson and Walker, 203). In Taiwan because 98% of enterprises are of medium and small scale, the frequency of labour mobility should be much higher than in Britain because the life-span of medium and small enterprises is more uncertain. This condition will make the occupational schemes in Taiwan much more disadvantageous than those in Britain.

Furthermore, this new law stipulates that the employees can retire voluntarily at 55 years old if they have worked for 15 years or at any age if they have worked for 25 years. But if they are 60 years old or they are disabled, either in mental aspect or in physical aspect, they may be forced to retire by their employers. It is very clear that these retirement conditions are a mixture of LI and GEI.

The payment of private schemes is only in a lump sum. For the first 15 years, the amount of payment is two months' average wage for each year's work time; and from 16th year on, that will be one month's wage for every additional year. The maximum of payment is 45 months. On the other hand, if the disability is caused by industrial contingencies, the payment will increase by 20%. The coverage of this new scheme is the largest one in Taiwan. Unfortunately as this law just came into force 2 years ago, no statistical data are available.

There are two schemes, military/veteran scheme and government employees' scheme, in the field of public occupational schemes. Their scale are both smaller than the private one, but there are no financing problem for them because they are financed by general revenue. Moreover, both of them have the options of lump sum payment or monthly pension. Although the general conditions are quite similar in these two sub-schemes, for example, the best offer for pension can be up to 90% of salary, the military scheme is much better than the civil scheme because the payments of the military scheme are based on actual salary but the civil scheme are based on only basic salary. The difference between basic salary and actual salary could be as high as 50%. The difference is very significant. Unfortunately the data of the military scheme is confidential and cannot be made available. So the discussion of the public occupational schemes will put more emphasis on the civil scheme.

In the military servants retirement scheme, its retirement requirements are more complicated than those of the civil servants. At first, the compulsory retirement ages are different for different servants in different ranks. By law, they are 45 years for soldiers, 50 years for officers up to captain, 58 years for officers up to colonel, 60 years for major general, 65 years for lieutenant general, 70 years for three-star general. Even before these compulsory retirement ages, if an officer cannot get a promotion within a certain length of service in a rank, for example, from 10 years for second lieutenant to 28 years for colonel, he is still forced to retire compulsorily. Apart from above requirements of age and length of service, an officer or a soldier is also allowed to retire if he is disabled or invalid. Therefore, the average retirement age of military servants is generally lower than that of civil servants.

The military retirement payments are closely related to the length of service. If the length of service is less than 3 years, there will be no payments at all. For those who serve up to 3 and less than 3 and a half years, they will be entitled to 6 months' full rate gross salary as their retirement payments. Afterwards and in the first ten years, each one month's salary will be added for every half a year's service. Or, this formula

can be expressed as  $2N-1$  ( $N$  = years of service). After the first ten and a half years, the previous formula is still applied, but additional 2 months will be added. In that case the formula is expressed as  $2N+1$ . The maximum of payment will be reached at 61 months when a servant has served for 30 years.

Moreover, if a servant has served for 15 years, then he is entitled to the option of a monthly payment, ie, pension. The level of pension amounted to 75% of one's gross salary at the beginning. Afterwards, each 1% will be added for every one year's service up to the maximum rate of 90%.

As for the government employees' occupational (retirement) scheme, all government employees in GEI are included except a small number of representative members. After 5 years' service, an employee may retire voluntarily at 60 years old or at any age if he has served for 25 years; or he must retire compulsorily at 65 or at any age if he is disabled, either in mental aspect or in physical aspect. The minimum qualification of this payment is 5 years' service.

After fulfilling the minimum qualification, except the employees of some government owned enterprises and utilities which opted to choose a provident fund as the occupational provision for their employees, all employees who do not serve over 15 years are entitled to only lump sum payments; but those who have served for 15 years and over will be entitled to the options of lump sum payment or monthly payment or the combination of them since 1979. The options of combination may be one of the following:

1. 1/2 lump sum payment and 1/2 monthly payment;
2. 1/3 lump sum payment and 2/3 monthly payment;
3. 1/4 lump sum payment and 3/4 monthly payment.

The amount of lump sum payment is calculated from the following formulas. After

satisfying the minimum qualification of five years' service, the payment will start from 9 months' basic salaries (note: not gross salaries). Afterwards it will add 1 month's basic salary for each half year's service until reaching its ceiling, 61 months' basic salaries. Additionally there are 2 months' basic salaries to be added when the service is up to 15 years. That is, the formula of payment can be expressed as  $2N-1$  for those who have served from 5 to 14 years, or as  $2N+1$  for those who have served for 15 years and over.

As for the monthly payment, it will start from 75% of one's last monthly basic salary. Afterwards there will be an increase of 1% for each additional year's service until it is up to the ceiling, 90% of one's basic salary. In summary, the formulas of both lump sum and monthly payments are the same as those of military retirement payments. However, for a civil servant, if his retirement is due to an injury during his duty, then his lump sum payment will increase by 20% and his monthly payment will be 90% automatically. Even those who do not serve up to 5 years will be considered as having served for 5 years.

As there is an option for lump sum or monthly payments since 1979 in the government occupational scheme, so these figures could be a good indicator of the preference for the types of payment among retirees. According to the statistics in 1984, the retirees who received lump sum payments were 57.6%, monthly payments 24.7% and combination payments 17.7% (see Table 7.1).

Table 7.1 Statistics of Occupational Retirement Payment, 1984

Industry	lump sum %	monthly %	combi- nation %	Total N (100%)
Administrative Organisations	60.5	36.7	2.8	3 530
Educational Institutions	66.0	31.3	2.7	2 029
Subtotal	62.5	34.7	2.8	5 559
Government Owned Enterprises:				
Productive enterprises	93.8	5.0	1.1	958
Communication enterprises	9.3	4.2	86.5	1 503
Fiscal enterprises	100.0	0.0	0.0	256
Total	57.6	24.7	17.7	8 276

Source: MOP, 1985

From the figures of above table, it seemed that the retirees strongly preferred lump sum payments to monthly payments because the total of the monthly payment was less than half of the lump sum payment. However, these figures cannot be considered as the real preference of retirees because the high rates of lump sum payments in productive and fiscal enterprises and the high rate of combination payment in communication enterprises are mainly the results of special government stipulation. In the author's survey, the retirees were asked the reasons why they chose that type of payment. Most retirees of these enterprises replied that that was prescribed by their enterprises or the government. There was no chance for them to make any choice. The reason was clearly that many productive enterprises were not always able to make profits, even their length of existence could not be guaranteed, so the best arrangement for their retirees was a lump sum payment. But for some communication enterprises such as railway and bus corporations, although they will last forever, their low profitability make them unable to pay large amounts of lump sum payments, so they cannot but arrange a combination payment compulsorily for their retirees.

As for retirees of fiscal enterprises such as banks, because their payments were

generally higher than the average and especially since most of them had the knowledge and experience to manage big amounts of money, so they were arranged to be paid in a lump sum. Only this arrangement would be able to meet their needs. Actually there were very few retirees in these enterprises complaining that they could not have the choice of monthly payments, but many of them did complain that they could not join the preferential rate saving account in the Bank of Taiwan.

Therefore, the figures which indicate the real preference of retirees should be those in the subtotal of administrative organisations and educational institutions because only these two groups of retirees could have the full freedom on the option of payments. So the real preference should be 62.5% in lump sum payments, 34.7% in monthly payments and 2.8% in combination payments.



Table 7.2 Government Occupational Payments in Taiwan (%)

Enterprises	Types of Payments	1980	1981	1982	1983	1984
Administrative Organisations	lump sum	65.8	62.4	61.8	58.2	60.5
	monthly	30.1	35.0	35.2	39.0	36.7
	combinat	4.1	2.6	3.0	2.7	2.8
Educational Organisations	lump sum	70.8	66.1	65.1	61.9	66.0
	monthly	29.2	33.9	33.5	34.7	31.3
	combinat	-	-	1.4	3.4	2.7
Subtotal	lump sum	67.6	63.5	63.0	59.6	62.5
	monthly	29.8	34.7	34.6	37.4	34.7
	combinat	2.6	1.8	2.4	3.0	2.8
Productive Enterprises	lump sum	92.5	93.9	93.4	92.6	93.8
	monthly	5.2	3.8	5.2	6.3	5.0
	combinat	2.3	2.3	1.4	1.1	1.1
Communication Enterprises	lump sum	35.1	27.6	15.3	9.9	9.3
	monthly	30.2	3.7	4.1	5.5	4.2
	combinat	34.7	68.7	80.6	84.6	86.5
Fiscal Enterprises	lump sum	67.8	87.1	98.5	100.0	100.0
	monthly	32.2	12.9	1.5	0	0
	combinat	-	-	-	-	-
Subtotal	lump sum	57.3	54.0	48.2	43.6	47.7
	monthly	22.5	4.4	4.3	5.3	4.1
	combinat	20.2	41.6	47.5	51.1	48.2
Total	lump sum	64.5	60.7	58.6	54.7	57.6
	monthly	27.6	25.9	25.5	27.6	24.7
	combinat	7.9	13.4	15.9	17.7	17.7

Source: MOP, 1981-85

However, this figure of lump sum payment might still somewhat over-estimate the real preference of the retirees, because, according to the author's survey, there were 8% of retirees in administrative organisations and 3% in educational institutions not serving up to 15 years so that they were not entitled to the options of monthly or combination payments. Otherwise, their figures would be a little bit different, either higher or lower. Although the figure of lump sum payments is still much higher than the other two, when referring to their data of time series, we found that, from 1980 to 1983, the figures of lump sum payments were slightly down and the figures of

monthly payments were slightly up. Unfortunately they changed in the opposite manner in 1984, otherwise we might expect that the monthly payments would be more popular in the future (see Table 7.2). However, this trend meant that the retirees in Chinese society generally still preferred a lump sum payment to a monthly one. According to the author's survey, the reasons can be explained as follows:

Firstly, it should be the case that most retirees would have a good relationship with their children. They were confident that their children would support their old age, so they were pleased to choose a lump sum payment in order to help their children to study for a higher degree, to establish or to expand their business or to marry, etc. This preference would particularly be true if their children needed help when they retired.

Secondly, the other important reason, and maybe a major reason, that the retired were not so keen on monthly payments was that there was no survivors' pension payments or any other kinds of compensation in succession of the monthly retirement payment of a retiree in order to protect the risk of his early death. The author was told of a special case by a senior officer of the Ministry of Personnel, Examination Yuan. There was a retiree who decided to choose a monthly payment. But he unfortunately died after two months' retirement. So his dependants suffered a great loss and asked for compensation. At last the government let them pay a refund of that two months' pension and re-paid them the lump sum.

Thirdly, because the retirement of government employees is not totally depending on the retirement age, many of them can also retire depending on the length of service, so many of them may retire when they are still quite young. In that case, it will be more flexible personally for them to have a big amount of money to carry out many objectives, for example, to run his own business, to buy a house or to pay off instalments or to help their children to get married, to study abroad, or to establish business.

Fourthly, apart from employees in government owned enterprises, there is a special preferential interest rate, 18% p.a. or 1.5% p.m., for all old age benefits, both insurance payments and occupational payments, if they opt to deposit their old age benefits in the Bank of Taiwan. This informal, political and selective measure was introduced before the establishment of monthly payments in order to provide retirees a quasi-pension. It remains in effect until now. For those who can get a big amount of retirement payments, in the short-term their income from interest may be larger or at least not less than monthly payments. Only in the long-term their income value from interest will be significantly or even greatly eroded if the inflation rate is very high. But most people will not think so long, so this measure attracts many retirees to choose lump sum payments. What many retirees of public enterprises and utilities complained about was that they were excluded from this measure.

Fifthly, though the regular payment is named as 'monthly payment' by law, actually it is paid once every 6 months or half a year. The retirees have to collect their payments at their original place of employment. Many retirees feel that this is very inconvenient for them and so they prefer a lump sum payment to the monthly payment.

Sixthly, for those who do not have good health, and do not expect to live very long, they tend to receive a lump sum payment.

Seventhly, for those who are veterans, if they want to renew their more favourable military monthly payments, they have to receive a lump sum payment as a requirement.

As for those who decide to receive a monthly payment, their reasons can also be listed as follows:

Firstly, a monthly payment is a very safe and reliable source of income though it is somewhat low and inconvenient.

Secondly, monthly payment will be scaled and adjusted according to the price index and the salaries of present civil servants. The risk of inflation can be avoided.

Thirdly, for those who have children in school, the status of monthly payment receiver will entitle them to receive educational subsidies. Especially if their children are still very young, this subsidy is quite substantial.

Fourthly, many old people want to have an independent life depending on this independent income in order not to depend on their children. This is particularly true if they do not have a good relationship with their children or their children are unable to earn very much.

In summary, there is no unanimous trend on the option for the form of retirement payments. People in different situations will have different needs, so do their preference. So it is important to provide an old age scheme with wide options.

### **7.3. Social Assistance**

Social assistance is another provision of social security in Taiwan. Generally social assistance is a provision for all residents, not only for the old. The Social Assistance Law was promulgated in 1980, instead of the previous Social Relief Law, in order to provide more comprehensive benefits. This law provides living assistance, medical subsidy, personal accident assistance and calamity assistance to the people who can pass given tests, ie, it aims to protect people from all kinds of contingencies. Among these four types of assistance, living assistance and medical subsidy are always mutually linked. The low income people who qualify for living assistance generally qualify for medical subsidy.

The low income families are divided by government regulation into three groups. The first group includes the families without any source of income at all. The second group includes the families whose labour force or employable persons are less than one third of the total family members and their gross income is less than two thirds

of the official subsistence level. The third group includes the families whose employable persons are not more than one third of the total family members and their gross income is not more than the official subsistence level. Only the low income families in the first group can receive regular full rate cash assistance.

We have several concepts in above assistance regulations requiring clarification. First, 'family' here cannot always be substituted by 'household' although the meaning of the latter is more precise. Because, in the civil law in Taiwan, Republic of China, there is an obligation of mutual support between parents and children, especially sons. But there is no such obligation between brothers or sisters. There is no regulation, and it is in fact impossible to have any regulation, to require a minimum level of mutual support, so it is only a quasi-statutory provision for the old people. The 'family' here means the category of parents with all their children and these children are not necessary to live in the same 'household'. So 'family' and 'household' are not mutually interchangeable in all cases. Second, 'labour force' certainly must be within working age which ranges from 15 years old to 64 years old in Taiwan. Not only are (disabled) children and housewives not considered as part of the labour force, but also full-time students. This is quite similar to the international standard.

Third, 'subsistence level' is defined as 'minimum living expenditure'. As Taiwan is divided into three different administrative areas: Taipei City, Kaohsiung City and Taiwan Province, the 'minimum living expenditure' of these three areas are different not only in their levels but also in their formations. In theory the 'minimum living expenditure' in Taipei City is officially prescribed as 40% of average regular per head family consumption expenditure which was derived from the family budget survey of Taipei City. In Kaohsiung City and Taiwan Province, minimum living expenditure is officially prescribed as one third of average per head family disposable income(see Table 7.3). Therefore, according to statutory norms and statistical figures, the 'subsistence levels' should be NT\$2,439 per month in Taipei City, NT\$2,108 in Kaohsiung City and NT\$1,718 in Taiwan Province. But in practice the actual

'subsistence levels' are officially prescribed as only NT\$2,100 in Taipei, NT\$2,000 in Kaohsiung City and NT\$1,950 in Taiwan province. To narrow the difference might be the main reason why the government do not use the empirical figures as subsistence levels. According to the author's opinion, the official subsistence levels are still reasonable, but the actual assistance levels are really quite mean. They are only sufficient to prevent people from starvation.

Table 7.3 Minimum Living Expenditure in Taiwan, 1984 (NT\$)

Measurement	Taiwan Area	Taipei City	Taiwan Province	Kaohsiung City
Size of household (P/HO)	4.68	4.41	4.77	4.31
Disposable income/HO	314.25	405.94	295.06	327.09 *
Disposable income/HE/m	5,596	7,671	5,155	6,324
Consumption expenditure/HO	243.78	322.66	229.05	236.05 *
Consumption expenditure/HE/m	4,341	6,097	4,002	4,564
Minimum Living Expenditure				
(1) 1/3 of income	1,865	2,557	1,718	2,108
(2) 40% of expenditure	1,716	2,439	1,601	1,826

Note: \* unit in thousand

P=persons

m=month

HO=household

HE=head

Source: CEPD, 1986c:25

However, these official subsistence levels are still not the actual levels of assistance. These subsistence levels are only used as the reference standard of means-test in order to decide the qualification of applicants. The actual assistance levels are even somewhat lower than these official subsistence levels. Nowadays the actual levels of assistance in Taipei City are NT\$1,800 for the head of household and only NT\$1,000 for each subsequent member. But they are NT\$1,200 for all persons in qualified households in Taiwan Province and Kaohsiung City. On average, the amount of this full rate assistance is only about 49%, 57% and 70% of subsistence level for every assisted family with two persons and more in Taipei City, Kaohsiung City and Taiwan Province respectively. So if we define subsistence level as 'poverty line', then

the actual assistance level is less than both actual poverty line and official poverty line. Even worse, among the three groups of low income families, only the persons in the first group who have no income at all are qualified to receive this cash assistance. The other two groups of low income families are entitled to only medical subsidy and some irregular assistance in cash or in kind.

Table 7.4 Assistance Recipients in Taiwan, 1984

Year	measurement		1st group	2nd group	3rd group	Total
1984	households	N	12 084	13 316	12 045	37 445
		%	32.3	35.6	32.2	100.0
	persons	N	16 486	51 746	54 359	122 591
		%	13.4	42.2	44.3	100.0
	persons/HO		1.36	3.89	4.51	3.27
1985	households	N	11 836	13 484	12 224	37 544
		%	31.5	35.9	32.6	100.0
	persons	N	16 171	52 224	54 726	123 121
		%	13.1	42.4	44.4	100.0
	persons/HO		1.37	3.87	4.48	3.28

Note: HO=household

Source: MOI, 1985d

In 1984 there were 12,084 households in the first group, 13,316 households in the second group, and 12,045 households in the third group; or 16,486 persons in the first group, 51,746 persons in the second group, and 54,359 persons in the third group. The real figures could be higher if the poor households or persons not applying were also included. Their average persons per household were 1.4 persons in the first group, 3.9 persons in the second group, and 4.5 persons in the third group. In 1985 these figures were quite similar(see Table 7.4). It is clear that most low income families in the first group are individuals. As the working age from 15 to 64 is officially prescribed as the basic condition of labour force, those low income single people are certainly over 64 or disabled or they cannot pass the tests.



Table 7.5 Assistance Recipients in Taiwan

year	household	persons	household size	% in population
1979	28 579	116 465	4.08	0.67
1980	30 685	115 666	3.77	0.65
1981	30 247	109 629	3.62	0.60
1982	33 625	120 014	3.57	0.65
1983	36 605	122 951	3.41	0.66
1984	37 445	122 591	3.27	0.64
1985	37 544	123 121	3.28	0.64

Sources: 1)CEPD, 1986c:25

2)MOI, 1985d

Although the number of households with people of low income keeps growing gradually their rate in total population is quite stable, at about 0.6% (see Table 7.5). As mentioned above, the low rate of poor people was mainly derived from a strict means-testing.

Under the provision of social assistance, another way to give assistance to the elderly is to accommodate them in old people's homes. At present there are twelve public old people's homes and twenty private ones. The number of residents at full capacity are 7.7 thousand persons in public old people's homes and 2.6 thousand persons in private ones. But actually there are only 6.3 thousand residents in public homes and 1.5 thousand residents in private ones. Their utilisation rates are 82.0% and 57.7% respectively in 1984 (see Table 7.6). The low utilisation rate in public homes is mainly caused by the severe entrance tests. The entrance regulation requires that the applicants must not be of working age and have no children to support them. Under this strict test only single old people can easily enter these old people's homes.

Table 7.6 The Utilisation of Old People's Homes  
in Taiwan, 1984

Financing	Capacity	Public	Private	Total
Public	expected	6 694	1 983	8 677
	actual	5 777	1 305	7 082
	%	86.3	65.8	81.6
Self	expected	1 034	601	1 635
	actual	561	187	748
	%	54.3	31.1	45.7
Total	expected	7 728	2 584	10 312
	actual	6 338	1 492	7 830
	%	82.0	57.7	75.9

Source: MOI, 1985c

In addition, the applicants also have to pass a strict means-test. If the old are well-off or have property, even if they have no children, they still must self-finance their expenditure in old people's homes if they decide to move in. There were 1,635 places for self-financed old people in 1984, but the actual number of residents was only 748 persons. The utilisation rate was very low. According to the previous chapter, apart from the huge number of single veterans moved in from mainland China about 35 years ago, the number of ordinary single people aged 65 years and over was only about 21 to 22 thousand persons. Explicitly, the present capacity of old people's homes, 10.3 thousand places, was far behind the need if all normal single old people wanted to enter old people's homes. Fortunately that is not the case. Apart from veterans, the total civil residents in old people's homes was only 7.8 thousand. The utilisation rate was only 75.9%. Although this rate was not bad, it was also not good.

Certainly the low rate of utilisation of old people's home was not only caused by the strict means-test, but also caused by many other social reasons. They might be as follows. 1) The size of old people's homes are generally very large. According to the number of registered places, it is generally several hundred. Among them, only three of them are less than 50 places, but the highest one is as high as 1,869. For such

large scale of homes, they certainly have to be located in a new developing area and located far from the old person's familiar community. If they move to old people's homes, it will not be easy for them to keep contact with their old friends or old neighbours. 2)The living conditions of old people's homes are not good. For example, a bedroom has to be shared by six persons in a public old people's home in Taipei City. It is not only a problem of congestion, but also a loss of privacy. 3)Since all publicly-financed residents must qualify by passing a strict means-test, all residents are definitely very poor. This makes being in an old people's home a stigma of humiliation. 4)Life in old people's homes is of a collective style, all residents must obey a given living schedule and certain living regulations. Freedom of living is relatively deprived. This is not easy for old people to adjust to.

Apart from the ordinary civil system of old people's homes, there is another special old people's home system, veteran homes for old veterans, in Taiwan. In theory this type of old people's home is in fact a sub-universal service in kind. It is introduced here in order to compare with the old people's home for ordinary old people. The main reasons for establishing this kind of old people's home separately are that, firstly, the number of single old veterans was particularly large (it was estimated as 68 thousand in 1984 in the previous chapter) that the existing old people's homes could not admit all of them and, secondly, they had devoted their whole lives in defence of this free land of China that the state was obliged to offer them a favoured treatment. Under the charge of the Commission of Veterans, Executive Yuan, in 1985 there were about 68 thousand veterans living in fourteen veteran homes, which are scattered around the country. Normally the figure of residents will increase by three thousand persons every year by government budget. Adding two thousand new places vacated by the deaths of old veterans, there will be five thousand new residents moving into those veteran homes every year. But in fact the real figures are much higher than that. For example, there was a huge increase to 92 thousand persons in 1986 due to a strong demand from veterans and the less

severity of their entrance conditions. Those who can get the first priority to move into veteran homes are the disabled and the invalid. People who have second priority are the senior of the veterans, ie, those who are over 65. At present the minimum age for applicants is 62 years. If there are too many veterans applying in the same year, the younger ones will be put on the waiting list. In 1985 the average age of residents in veteran homes was 68 years. The youngest residents were 62 years old. Six of them were over 100 years old.

The residents in veteran homes not only have free living expenditure but also can get pocket money of NT\$1,100 each month. Although there is no affect on the military occupational pensions if the the veterans live in a veteran home, there are still some single veterans preferring to stay in their old community rather than go to veteran homes. That could mean that the private freedom and the harmonious neighbour relations are more important than economic benefits for them. Besides, the married veterans are not entitled to live in veteran homes, but if they are in special hardship, they can get a special monthly aid of NT\$2,000-3,000 from veteran homes. In the author's survey, there were about 2.5% of retirees in LI receiving this aid. Of course, not all of them were up to 65 years old.

#### **7.4. Sub-Universal Schemes**

As defined in chapter 2, apart from residence/citizenship test, if benefits, either in cash or in kind, are due to all residents without any special test in the country, they are all-universal benefits; but if they are entitled to only a given part of residents by passing some non-pecuniary tests such as age, industry or membership, then they are benefits of sub-universal schemes. In Taiwan only military servants and their dependants and veterans (ie, retired military servants) can get free public health service from military hospitals and veteran hospitals. This is the only provision of sub-universal schemes for the aged in Taiwan. The number of beneficiaries can be approximately estimated. Firstly, the number of veterans is about 2.0 million. As for the number of military servants and their dependants, their actual total number is not

available. We need to make an estimation. Because 1) the dependants of military servants include only parents and non-adult children, 2) some parents might not live together, so they were registered in different households, and 3) some children might have been adult, so they were not entitled to service any more, so the number of dependants of military servants would amount to the average number of per household subject to an addition of the average number of the separately-residing parents and a deduction of the average number of the adult co-residing children. If the number of the separately-residing parents is equal to the number of the adult co-residing children, then the number of dependants will be equal to the average number per household. If this assumption is acceptable, then the number of dependants of military servants would be about 2.6 million persons in 1984 because in that year the number per household was 4.48 persons and the number of military servants was said as 0.585 million persons. So the maximal total number of beneficiaries of these two schemes was about 4.6 millions. Only part of them are the elderly.

Though there is no free medical care for the dependants of veterans, they can get a 20% discount in outpatient cost or 40% discount in inpatient cost. Even the dependants of government employees can get a 70% reimbursement for their inpatient expenditure subject to a given ceiling per year.

## **7.5. Summary**

In Taiwan, as the titles of sections showed, all three main types of social security have provision for the aged. But the benefits they provide differ greatly.

In the field of primary social insurance, because its three main schemes, LI, GEI and MI, not only include the largest number of insured persons, but also provide the longest well-established statistics and related documents, so it is both in theory and in fact considered as the main provision of social security in Taiwan. So this provision

will be discussed in detail in the next chapter. In 1985 the number of total insured persons of its three schemes was about 5,483 thousand. It was 28.5% of the total population, 40.4% of population age 15 and over, or 66.3% in labour force and 68.2% in employed persons. Apart from the health insurance for retired persons and their spouses in GEI, the basic characteristics of all social insurance schemes are employment-related and comprehensive. Whenever an employee is retired or dismissed from his employment with or without a retirement payment, he will lose the entitlement to all other benefits. All insurance retirement payments are paid in a lump sum.

As for secondary social insurance in Taiwan, its main provision is occupational payments, including both public schemes and private schemes. The private occupational schemes have just been mandatory for two years. Their payments can be up to 45 months of monthly wage, the same amount as insurance payment, if an employee has worked for thirty years. But for the same length of service, the public occupational schemes for government employees and military servants will be up to 61 months' wage. Compared to their 36 (GEI) or 45 (MI) months' insurance payments, the occupational payments of government employees and military servants are both higher than insurance payments. As for their total (combined) retirement payments, their possible maxima are 90 (45+45) months for the LI retirees and 97 (61+36) months for the GEI retirees and 106 (61+45) months for the veterans. The veterans receive the best treatment.

As for social assistance, its test is so severe that only the extreme poor people are qualified to benefit. From every aspects, it is not a satisfactory social security provision in Taiwan. It is in particular not a good provision for the elderly in Chinese society due its special cultural tradition. As for sub-universal schemes, they are restricted to only medical services for the elderly who are veterans, military servants and the dependants of military servants.

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## CHAPTER 8

### THE PRIMARY SOCIAL INSURANCE PROVISIONS IN TAIWAN

#### 8.1. Introduction

Both in policy and in practice, the development of social security in Taiwan tends to be social insurance oriented. In the field of social insurance nowadays there are three main systems of provision, i.e., LI, GEI and MI, and five main subordinate schemes, ie, RGEI (or HIRGE and HISRGE after 1985), HIGED, ITASPS, HIF, IRTASPS (or HIRTASPS and HISRTASPS after 1986). The number of insured persons grew steadily in all schemes (although in the case of valid military insurance figures are not available). The total number was about 4,969 thousand persons in 1984 and 5,466 thousand persons in 1985 including estimated numbers in Military Insurance (MI) (see Table 8.1).

Table 8.1 Insured Persons in Taiwan Area (1,000)

1960	LI	GEI	RGEI	HIGED	ITASPS	HIRGE	HISRGE	IRTASPS	Total
1960		204	-	-	-	--	--	-	
1965		240	2	-	-	--	--	-	
1970	938	294	5	-	-	--	--	-	1 237
1975	1 566	359	8	-	-	--	--	-	1 933
1980	2 549	415	9	-	11	--	--	-	2 984
1981	2 791	432	9	-	22	--	--	-	3 254
1982	2 958	444	9	176	23	--	--	-	3 610
1983	3 330	453	10	177	25	--	--	-	3 995
1984	3 699	469	10	180	26	--	--	0	4 384
1985	4 154	476	5	180	26	41	26	0	4 908
1986	4 825	483	4	181	27	50	32	0	5 602

**Notes:**

- 1)MI: Valid figures are not available. It was said to be about 500 thousand. But according to statistical evidence, it seemed to be 585 thousand in 1984 and 558 thousand in 1985.
- 2)IRTASPS: The figures were less than 0.2 thousand in 1984 and 1985. No figures after 1986.
- 3)The figures of LI included 113 thousand insured persons of HIF in 1985.
- 4)The total of HIRTASPS and HISRTASPS was less than 0.5 (0.3 + 0.1) thousand persons in 1986.

Sources: 1)BLITF, 1985: 14

2)CTC, 1985: 26-27, 344, 449

3)DGBAS, 1987

4)CEPD, 1987:305

In order to get a more precise idea about the importance of the role of social insurance in Taiwan, the proportion of the insured persons in the total population, in the population aged 15 years and over, in the labour force, or in the total of employed persons may be used as indicators. As all figures of the insured persons are of the end of year, these proportions have to be calculated based on the end-year figures. Unfortunately, not all end-year figures of the different populations mentioned above are available. Some of them are derived from assumption and some from calculations (see Table 8.2 and Table 8.3). According to these two tables, including military servants, the rates of insured persons were 26.1% (28.4%) in total population, 37.4% (40.3%) in population aged 15 and over, 61.0% (66.2%) in (military and civil) labour force and 62.5% (68.0%) in (military and civil) employed persons in 1984 (1985). The remaining 73.9%, 62.6%, 39.0% and 37.5% (71.6%, 59.7%, 33.8% and 32.0%) were the excluded un-insured persons respectively in the different populations. They were the targeted groups that we wanted to reach.

Table 8.2.1 Labour Force Statistics in Taiwan, 1984 (1,000)

Total		population aged 15 and over							
		sub-total	mili-tary ser-vants	pri-son-ers	civil population aged 15 and over				
					sub-total	non-labour force	civil labour force		
							subtot	employed	unemploy
N	mid-year								
	18 873	13 178	585	49	12 544	5 053	7 491	7 308	183
	100.00	69.82	3.08	0.28	66.47	26.77	39.69	38.72	0.97
%		100.00	4.42	0.39	95.19	38.34	56.84	55.46	1.39
					100.00	40.28	59.72	58.26	1.46
							100.00	97.56	2.44
N	end-year								
	19 013	13 276	585	49	12 642	5 092	7 550	7 366	184

Sources: 1)DGBAS, 1985a:6-7, 1987:296-7

2)MOI, 1985a:48-49; 1985b:170

3)CEPD, 1986a:9-10, 13.

Notes: The calculations,

A)available figures:

- 1)mid-year and end-year total populations,
- 2)end-year population aged 15 and over,
- 3)mid-year civil population aged 15 and over, non-labour force, employed persons and unemployed persons,
- 4)end-year prisoners.

B)calculating:

- 1)13 178 = 18 873 (13 276 / 19 013)
- 2)assume: mid-year prisoners = end-year prisoners
- 3)585 = 13 178 - 12 544 - 49  
assume: mid-year military servants = end-year military servants
- 4)12 642 = 13 276 - 582 - 52
- 5)calculate %s according to mid-year figures
- 6)5 092 = 40.28% (12 642)  
7 550 = 59.72% (12 642)
- 7)7 366 = 97.56% (7 550)  
184 = 2.44% (7 550)

Table 8.2.2 Labour Force Statistics in Taiwan, 1985 (1,000)

Total		population aged 15 and over							
		sub-total	mili-tary ser-vants	pri-son-ers	civil population aged 15 and over				
					sub-total	non-labour force	civil labour force		
							subtot	employed	unemploy
N	mid-year								
	19 135	13 475	558	57	12 860	5 210	7 650	7 428	222
	100.00	70.42	2.94	0.28	67.21	27.23	39.98	38.82	1.16
%		100.00	4.17	0.39	85.44	38.66	56.77	55.12	1.65
					100.00	40.51	59.49	57.74	1.73
							100.00	97.10	2.90
N	end-year								
	19 258	13 562	558	57	12 947	5 245	7 702	7 479	223

Source: 1)CEPD, 1986a: 9-10, 13

2)DGBAS, 1987:296-7

## Notes:

## A)available figures,

- 1)mid-year and end-year total populations,
- 2)end-year population aged 15 and over,
- 3)mid-year civil population aged 15 and over, non-labour force, labour force, employed persons and unemployed persons,
- 4)end-year prisoners.

## B)calculating:

- 1)13 475 = 19 135 (13 562 / 19 258)
- 2)assume: mid-year prisoners = end-year prisoners
- 3)558 = 13 475 - 12 860 - 57  
assume: end-year military servants = mid-year military servants
- 4)12 947 = 13 562 - 562 - 53
- 5)5 245 = 40.51% (12 947)  
7 702 = 59.49% (12 947)
- 6)7 479 = 97.10% (7 702)  
223 = 2.90% (7 702)

Though there are three main systems of social insurance in Taiwan, there are only two of them, LI and GEI, whose statistics are accessible and research is possible. For this reason, this research on social insurance was confined to only LI and GEI. And, finally, because the author's survey was restricted to only the retirees in 1984, so the official statistics that I used refer mainly to 1984 though the data of the later years

were available.

## 8.2. Coverage

There were 3,699 thousand insured persons (if including 6 thousand sugar cane farmers) in LI and 469 thousand in GEI in 1984. Disregarding the subordinate insurance systems, the sum of insured persons of these two systems was about 21.9% of total population or 55.2% of civil labour forces or 56.6% of civil employed persons. In the same year there were 19.6 thousand retirees in LI and 7.2 thousand retirees in GEI if its dismissed employees were also included--- because since 1979 dismissed employees were entitled to retirement payments as long as they had contributed for five years (see Table 8.13). Retirement rates per year were about 0.5% in LI and 1.5% in GEI. But their enrollment rates were significantly greater, so the increase rates of insured persons were as high as 11.1% and 3.5% respectively. As mentioned in the previous chapter, though both schemes are employment-related, due to the restrictions of the laws, there is a large number of persons such as employees employed by employers employing less than five persons, the self-employed, unpaid domestic workers and employers being excluded from these two social insurance systems even though they are in employment.

As all qualified government employees are recorded in the Ministry of Personnel (MOP), Examination Yuan, so all of them should be included in GEI. Particularly as GEI also includes representatives who are not qualified public servants, so the figure of GEI should be larger than that of MOP. But actually this is not the case. Apart from educational and cultural institutions, all figures in MOP were larger than those in GEI in 1984. The reason for the difference in educational institutions might be that there were many teaching staff in universities or colleges who were not qualified by the Examination Yuan in their official requirements or the conditions of nationality, though they had been engaged in those jobs for years. So its figure in GEI was larger than that in MOP. As for other items, their main reason might be that there were many qualified employees just temporarily quitting their salaries but still preserving their

posts for such reasons as studying abroad or transferring to a political party system (see Table 8.3).

However, Table 8.3 is presented not only for this purpose, but also for the estimation of the number of government employees joining LI. According to the author's research, in LI 26% of retirees were employed by government agencies or organisations. Was this figure still valid for the existing LI insured persons? According to one of the government regulations of personnel: there should be 4 white collar workers to 1 blue collar worker, as the subtotal of white collar workers of the first five categories in Table 8.3 was about 331 thousand persons, so there could have been 83 thousand blue collar workers. As for the sixth category in Table 8.3, government-owned enterprises, its ratio was generally the opposite or a little more. If its average ratio was 1:5, then they would be 686 thousand blue collar workers. So in 1984 the total blue collar workers employed by government but having to join LI would be 769 thousand, ie, 20.8% of LI insured persons. Frankly, these figures are derived from estimation, they need to be proved by empirical data.

Table 8.3 Government Employees in Tawan, 1984

category	MOP	GEI
Administrative Organisations	168 488	133 143
Representative Organisations	-	2 594
Judiciary Institutions	-	9 339
Health Institutions	-	19 594
Educational & Cultural Institutions	163 405	166 702
Government-owned Enterprises	144 340	137 205
Total	476 233	468 577

Note: The figures of judiciary and health institutions in MOP might be included in administrative organisations.

Sources: 1)MOP, 1985: 192

2)CTC, 1985: 28

Table 8.4 Civil Employed Persons by Class of Workers in Taiwan(1000)

Class	1984			1985		
	survey's mid-year	%	estimated end-year	survey's mid-year	%	estimated end-year
Employers	298	4.08	301	319	4.29	321
Self-employed	1 513	20.70	1 525	1 544	20.79	1 555
Unpaid workers	787	10.77	793	804	10.82	809
Paid employees	4 709	64.44	4 747	4 761	64.10	4 794
a)private	3 851	52.70	3 882	3 896	52.45	3 923
b)government	858	11.74	865	865	11.65	871
Total	7 308	100.00	7 366	7 428	100.00	7 479

Notes:1)Estimated totals are referred to Table 8.2.

2)End-year figures are calculated in order to compare with insurance statistics.

Source: CEPD, 1986f: 8

As mentioned before, in LI the excluded employees were those who were employed by employers employing less than 5 persons, self-employed, employers and un-paid domestic workers. According to the labour statistics (see Table 8.4), we could get a rough idea how many persons in these classes were excluded. For example, by definition the employees employed by employers employing less than 5 persons were included in 'paid employees', so in theory the number of 'paid employees' who were excluded from social insurance schemes were 553 (=4747-4194) thousand in 1984 and only 249 (=4794-4656-113) thousand in 1985. Apart from the number of self-employed which would be 1,442 (=1555-113), as for employers and unpaid domestic workers, their numbers in 1985 were 321 thousand and 809 thousand respectively (see Table 8.4).

By other empirical statistics we even can find out in what degree the labour force in different industries have been excluded from LI. After the transformation of mid-year employed persons into the end-year ones, we can obtain the ratio of insured persons to employed persons in different industries (see Table 8.5). It was quite clear that the ratio of primary industry was the lowest one. Even including the



113 thousand newly insured farmers in the Health Insurance for Farmers (HIF), the ratio was still only 24.6% and still was the lowest one. The second lowest one was commerce. At only 25.4%, it explicitly showed that most employed persons in this industry were self-employed and un-paid domestic workers. The third lowest one was construction. Its ratio was 36.6%. As for GEI and ITASPS insured persons, they should be included in industry 'I', ie, community, social and personal services. So the ratio of this industry should be 83%. It might be an effective strategy to extend the coverage of LI from the one with the lowest ratio and largest population to the one with a higher ratio and less population until all employed persons are included. However, as the non-insured persons of paid employees had greatly reduced from 553 thousand to 249 thousand between 1984 and 1985, the priority to tackle non-insured persons we could apply was: 1)self-employed (1442 thousand), 2)domestic workers (809 thousand) and 3)employers (321 thousand).

Table 8.5 The Ratio of Insured Persons by Industry in Taiwan, 1984  
(in thousand)

Industry	Persons in Employment			Insured Persons	Ratio %
	mid-year	%	end-year	end of year	
A	1 286	17.6	1 296	206 319(206+113)	15.9 24.6
B	41	0.6	41	27	65.9
C	2 494	34.1	2 514	2 029	80.7
D	34	0.5	34	36	105.9
E	521	7.1	525	192	36.6
F	1 280	17.5	1 290	328	25.4
G	378	5.2	381	339	89.0
H	(177)	2.4	179	119	66.5
I	(1 097)	15.0	1 106	423 918(=423+469+26)	38.2 83.0
Total	7 308	100.0	7 366	3 699 4194 (=3699+469+26)	50.2 56.9

Notes:

A=Agriculture, forestry, hunting and fishing

B=Mining and Quarrying

C=Manufacturing

D=Water, electricity and gas

E=Constructions

F=Commerce, ie, trade, restaurants and hotels

G=Transports, storage and communication

H=Finance, insurance, real estate and business services

I=Community, social and personal services

1)GEI and ITASPS insured persons should be included in 'I'.

2)Military servants were excluded.

Sources:

1)DGBAS, 1985a: 28-29

2)BLITF, 1985: 92-93

3)CEPD, 1986a:15-16

The coverage of insured persons of these two systems are quite ambiguous. Theoretically the coverage of GEI should include all government employees. That is, all employees who receive a regular pay from a government agency should be included in GEI. Even the representatives of different levels of representative organisations are included in GEI because they receive some kinds of special pay from government. But it is very astonishing that the blue collar workers such as technicians, drivers, porters and cleaners employed in government agencies or government owned enterprises or public schools are all excluded. It is because they do not need to pass any

qualification examination set by the Examination Yuan that they are not classified as qualified public servants. So they have to join LI. From this point of view, it seems that all white collar people among government employees are included in GEI, while the blue collar ones are included in LI. But this is still not a general rule because if the white collar employees are employed under a contract, then they have to join LI. On the other hand, all employees in the private sector, except those in private schools who can join either the independent ITASPS scheme or LI voluntarily, no matter that they are the highest general managers or the lowest porters and cleaners, ie, both white collar and blue collar, are compulsorily included in LI if their employers employ more than five persons. Therefore, the insured persons in these two schemes, especially LI, cannot be classified as white collar or blue collar any longer.

### 8.3. Contingencies

As the laws show, the contingencies covered by LI and GEI are comprehensive and they are almost the same. They are maternity, sickness, injury, disability, unemployment (not included in GEI and not come into force yet in LI though it has been written in the law), old age and death (including dependants' Funeral allowance). But their types of benefit are partly different. For example, in GEI the benefit of maternity is in kind, i.e., medical care, but it is in cash in LI. In addition there are benefits both in cash and in kind for sickness and injury in LI, but only in kind in GEI. The remaining contingencies are all paid in cash in both schemes.

When we review the rates of claiming (by cases) (see Table 8.6) of different contingencies independently, we find that they are quite stable over time. But when we have a close comparison of the level between different contingencies, their differences were quite significant. More interestingly, we even find that the order of magnitude in LI and GEI are exactly the same. From the one with the highest rate of claiming to the one with the lowest rate, their order are as follows: (1)sickness and injury, (2)maternity, (3)deaths of dependants, (4)old age, (5)death and (6)disability. The highest rates of sickness and injury were as high as 973% in LI and 834% in GEI in

1984. That is, the number of visit a doctor per head per year was 9.7 times in LI and 8.3 times in GEI in 1984. Yet the lowest disability was only 0.2% in LI and 0.1% in GEI in the same year. The difference between the highest contingency and the lowest one was really very large.

Table 8.6.1 Rates of Claiming in LI (100% = 512 cases)

year	in cash						in kind	
	DA	OA	DI	DD	MT	SI	SI	
							IP	OP
1976	0.23	0.42	0.26	1.16	6.07	0.79	6.85	773.11
1980	0.22	0.55	0.26	1.10	5.09	1.59	7.23	937.71
1982	0.21	0.65	0.26	1.12	5.26	1.94	8.59	1002.72
1984	0.23	0.53	0.24	1.01	4.57	2.38	8.66	972.67

Notes:

DA=diability

OA=old age

DI=death of insured person

DD=deaths of dependants

MT=maternity

SI=sickness and injury

OP=outpatients

IP=inpatients

Source: BLITF, 1985: 150-151, 276-277

Table 8.6.2 Rates of Claiming in GEI (100% = 413 cases)

year	in cash				in kind			
	DA	OA	DI	DD	MT		SI	
					IP	OP	IP	OP
1970	0.12	0.89	0.27	1.66	8.64	22.43	11.23	874.82
1975	0.10	1.03	0.25	1.67	7.11	20.31	10.62	788.84
1980	0.09	1.45	0.26	1.86	6.89	21.63	9.98	770.72
1984	0.11	1.54	0.22	1.91	5.48	30.18	8.87	833.77

Source: CTC, 1985: 133, 236-237

But when we compare the total cost of each contingency, we find that their order is different from their utilisation. In 1984 the amount of expenditure on sickness and injury still had priority in LI, but in GEI it was old age. As for the second highest one,

it was old age in LI and sickness and injury in GEI. The order of remaining contingencies were consistent in these two schemes again. Their sequence were: (3)death, (4)maternity, (5)deaths of dependants and (6)disability. The highest expenditure contingency was as high as 45% in GEI and 60% in LI. But the lowest one was only 3% in LI and 1% in GEI (see Table 8.7). Their difference was also quite significant.

Table 8.7.1 The Costs of Contingencies in LI

year	in cash						in kind	
	DA	OA	DI	DD	MT	SI	SI	
							IP	OP
1976	4.78	12.24	11.73	4.37	9.33	1.45	21.51	34.51
1980	3.00	16.79	10.17	4.58	7.19	1.32	21.74	35.20
1982	2.52	15.35	8.53	4.05	7.08	1.28	25.71	35.47
1984	2.70	13.84	8.95	3.89	7.20	1.51	27.40	34.50

Note: 1)Abbreviation: see Table 8.6.

2)100% = total expenditure each year

Source: BLITF, 1985: 150-151, 276-277

Table 8.7.2 The Costs of Contingencies in GEI

year	in cash				in kind			
	DA	OA	DI	DD	MT		SI	
					IP	OP	IP	OP
1970	1.96	16.67	11.89	6.79	5.13	0.39	21.55	35.42
1975	1.54	29.97	10.44	5.77	5.11	0.41	18.62	28.15
1980	1.03	49.55	8.30	4.90	4.31	0.34	13.34	18.24
1984	1.04	45.26	6.31	4.48	4.77	0.67	16.04	21.43

Source: CTC, 1985: 133, 136-137, 136-237

Although the amount of expenditure in old age was the first or the second highest in these two schemes, their maturity rate (the percentage of insured persons who are qualified to receive old age benefits) was not very satisfactory. According to official statistics, the sex composition of insured persons is male 68.6% and female 31.4% in

GEI and male 55.7% and female 44.3% in LI. Even in national labour statistics, its composition is male 58.1% and female 41.9%. Their differences are not very large. But according to the author's research, the corresponding figures of retirees are male 92.3% and female 7.7% in GEI and male 91.2% and female 8.8% in LI. This sharp drop in the number of female retirees may be caused by the following two reasons: 1)there is a large number of female insured persons who left the labour market before they can satisfy the retirement requirements such as age; 2)there is a higher female labour participation from the younger generation than the older one. However, for those who are in the first case, it not only means that they lose their entitlements to old age payments no matter how long they had contributed to the schemes, but also means that the breadwinner of a family in Chinese society is still the male or husband.

Furthermore, the Labour Standard Law stipulates that the employees are qualified to retire after 25 years' service. This will enable an employee to retire before 50 years of age if he starts work before 25 years old. But the stipulated retirement age in LI is 60 years or at least 55 years old. Therefore, the contradiction between the Labour Standard Law and LI Law may make the contingency of old age invalid in some special cases.

#### **8.4. Contributions**

Personal contributions is the revenue of social insurance. It is closely related to its benefit. Generally, its grand total rate is a certain percentage of the wage of insured persons. For example, including employer's contribution, they are about 19.5% in UK, 50.7% in France, 31.3% in West Germany, 18.9%% in USA, 30.4% in Sweden and 20.5% in Japan (DHHS, 86, 94, 136, 242, 268, 270). Of course, these figures do not really reflect the actual cost of social security in different countries because they do not include the cost of universal allowances and the government subsidies. In Taiwan the comprehensive contribution rates are 7% (or 8.2% to 11.0% if industrial contribution is included) in LI and 9% in GEI. Comparatively they are rather low. Theoretically or even legally in Taiwan the insured wage (which is actually taken into

account as the base to calculate one's contribution and benefit) should be the same as one's actual (gross) wage. But actually this is not always the case. On the contrary, the insured wage is generally less than the actual wage. So it is necessary to make clear the difference of different wages in different groups of population. From official statistics we can obtain the insured wage of LI and GEI and actual wage of total employed persons. In addition, the insured wage and actual wage of the retiring group were available from the author's survey (see Table 8.8).

Table 8.8 Insured Wage and Actual Wage in Taiwan, 1984

Insurer	Retiring group			Insured group			EP
	IW	AW	Ratio	IW	AW	Ratio	
GEI	10 300	19 400	0.53	8 667	15 758	0.53	
LI	8 400	12 000	0.70	7 407	(13 698)	(0.54)	
Average	8 910	13 987	0.64	7 549	(13 930)	(0.54)	13 698

## Notes:

IW=insured wage

AW=actual wage

EP=employed persons

The 'average' of GEI and LI has been weighted.

## Sources:

1)DGBAS, 1985a: 28-29, 384-385

2)BLITF, 1985: 92-93

3)CTC, 1985: 54-55

4)author's survey

In this table the figures of insured wage and actual wage in the retiring group were reliable. In addition, the figures of insured wage in the insured group were also reliable. According to these figures, we can conclude that, both for insured wage and actual wage, GEI is higher than LI. In the insured group the insured wage of GEI was also higher than LI in the retiring group. So the contribution of GEI was definitely higher than LI. Under this circumstance, it will not be a surprise that the benefit of GEI is better than LI.

According to the insured wage and actual wage of the retiring group, we can



calculate that their ratio was 0.53 in GEI and 0.70 in LI and their average was 0.64 in 1984. As for the same ratio in the insured group, the main problem is that the actual wages are not available. We have to estimate them. Firstly, as the wage system in government and government owned enterprises is operated by a normal procedure and has its regular budget, and it should be quite stable in the whole system, so we might assume that the insured wage ratio of the insured group in GEI would be still the same as that in the retiring group. That is, 0.53. If this is the case, then the actual wage of insured wage of insured group in GEI would be calculated as NT\$15,758.

As for the insured wage ratio of the insured group in LI, I would not expected that it would be still as high as 0.70 as in the retiring group because in the retiring group there were more than 30% of them having a full ratio of 1.0 (see Table 8.10). It could be a way the employers could do some favours to their employees by contributing higher ratio (the maximum is 1.0) before they retired in order to enable them to receive higher retirement payments. Besides, even if the ratio of the insured group was as high as 0.70 as in LI, then its actual wage would be only NT\$10,581. Its amount was less than that of the retiring group. This would be contradictory to the following facts: a) In GEI most employees are selective elites who have passed the examination set by the Examination Yuan, so their salary will increase proportionally to their length of service or insurance. Empirical statistics clearly justified this trend (CTC, 1985: 64-67). b) There was no such trend in LI. As we have mentioned in chapter 6, the illiteracy rate of old people aged 65 years and over was 54% (MOI, 1985: 114-115). If we delete the old people of GEI, this rate would be even higher. The limitation of their educational attainment could be their main disadvantage. For most LI retirees, it is a general pattern for blue-collar wages not to increase proportionally to their ages. So it was quite reasonable that the actual wage of the retiring group was higher than that of the insured group in GEI, but it was not necessarily the same case in LI.

Then, what amount of the actual wage of the insured group in LI should it be?

According to the DGBAS survey, we already know that the average salary of the total number of employed persons was NT\$13,698 in 1984 (see Table 8.9). Was the actual wage of LI higher than that or lower than that? On one hand, as many employers and self-employed were of high income, so the exclusion of employers and self-employed might cause an under-estimate of average wage of insured persons, ie, the actual wage of LI insured group could be less than NT\$13,698. But, on the other hand, many self-employed were of low income and un-paid domestic workers had no formal income, so the exclusion of self-employed and unpaid domestic workers could cause an over-estimate of average wage of insured persons, ie, it should be higher than NT\$13,698. Only an empirical survey can solve this uncertainty. At the present stage, the actual wage of LI insured group could be higher or lower than NT\$13,698, but it should not be very far from this figure. If we assumed that it was equal to NT\$13,698, then we can obtain the ratio of LI insured group as 0.54 from the average of the ratio in different industries in LI (see Table 8.9). And then the average actual wage of GEI and LI would be NT\$13,930. And its average ratio was still 0.54 (see Table 8.8).

Table 8.9 Insured Wage Ratios in LI by Industry, 1984

Industry	Average Wage NT\$ (1)	Insured Wage NT\$ (2)	Insured Wage Ratio
A	-	4 075	-
B	15 847	9 362	0.59
C	12 841	7 313	0.57
D	22 744	11 908	0.52
E	14 173	7 265	0.51
F	13 523	7 618	0.56
G	14 714	7 761	0.53
H	21 142	8 910	0.42
I	12 654	8 134	0.64
Average	13 698	7 407	0.54

Note: (see Table 8.5 )

Sources: 1) DGBAS, 1985: 384-385

2) BLITF, 1985: 92-93

Table 8.10 The Distribution of Insured Wage ratio of Retiring Group in GEI and LI, 1984

Ratio	GEI		LI	
	N	%	N	%
0.1-	0	0	1	0.3
0.2-	2	0.8	3	0.8
0.3-	9	6.5	13	3.6
0.4-	24	17.7	24	6.6
0.5-	66	40.3	41	11.4
0.6-	42	27.5	54	15.0
0.7-	4	5.4	38	10.5
0.8-	2	1.6	55	15.2
0.9-	0	0	22	6.1
1.0	0	0	110	30.5
Total	367	100.0	361	100.0

Source: author's survey

In summary, for an insured person, the components of social insurance in Taiwan consists of three parts: (1)insured wage ratio: the amount of insured wage to actual wage, (2)contribution rate: the proportion of contribution to insured wage and (3)the sharing of contribution. Nowadays the average insured wage ratio is 0.53 in GEI and 0.54 in LI. The total contribution rate is 9% in GEI and 8% in LI. The total contribution is shared by employer and employee. Its sharing rate is 65:35 in GEI and 80:20 in LI.

#### 8.5. Benefits in cash

In both GEI and LI cash benefits are contribution-related, so the level of contributions has a close relation to the amount of benefit. In both schemes cash benefits are paid for the contingencies of disability, old age, and death (including deaths of dependants) in lump sum. But in LI the same benefit is also paid for maternity, sickness and injury. The rates of claim of these last two contingencies were also the highest ones in LI. If excluding these two contingencies (because there was no cash benefit for them in GEI), the order of the magnitude of claims would be the same in GEI and LI in 1984, ie, (1)deaths of dependants, (2)old age, (3)death and (4)disability. This order was also the same in previous years (see Table 8.11). The

actual numbers of claims in these two schemes were greatly different because their population of insured persons were different, but their rates of claim were quite similar (see Table 8.5).

Table 8.11.1 The Number of Claims and The Amount Per Claim in LI

year	MT	SI	DA	OA	DI	DD
Claims (1,000)						
1976	103.8	13.5	3.9	7.2	4.4	19.9
1980	129.2	40.5	5.7	13.9	6.6	27.9
1982	155.3	57.3	6.2	19.1	7.6	33.0
1984	168.8	88.0	8.4	19.6	8.8	37.4
Amount per Claim (NT\$1,000)						
1976	2.3	2.7	31.0	42.7	66.9	5.5
1980	4.6	2.7	43.7	99.5	126.3	13.5
1982	6.9	3.3	61.1	120.5	169.2	18.5
1984	9.5	3.8	71.3	157.1	226.0	23.2

Notes: (see Table 8.6)

Source: BLITF, 1985: 150-151, 176-277

Table 8.11.2 The Number of Claims and The Amount Per Claim in GEI

year	DA	OA	DI	DD
Claims (1,000)				
1970	0.4	2.6	0.8	4.9
1975	0.3	3.7	0.9	6.0
1980	0.4	6.0	1.1	7.7
1984	0.5	7.2	1.0	9.0
Amount per Claim (NT\$1,000)				
1970	20.4	24.0	56.9	5.3
1975	37.5	68.5	98.3	8.1
1980	73.8	218.7	207.0	16.9
1984	99.5	318.1	310.5	25.4

Source: CTC, 1985: 133, 136-137

As for the level of benefits, because the average insured wage of GEI was generally higher than that of LI, the amount per claim of GEI was higher than that of LI in every benefit and every year (see Table 8.11). Compared to the same benefit of GEI, in 1984 the amount per claim of LI was about 91.5% of average GEI benefit for

death of dependant, 72.8% for death, 72.7% for disability and only 49.4% for old age. The difference was quite significant.

However, as only old age benefit has a close relation to old people in these two schemes, we want to discuss this benefit in detail. Generally the two common conditions for this benefit in these two schemes are retirement and contribution. Firstly, in the aspect of retirement, since the enforcement of the Labour Standard Law, the conditions of retirement for LI insured persons are almost the same as government employees. The insured persons may retire voluntarily if they have served for 25 years. The only difference is on the age of compulsory retirement. It is 65 years old for government employees and is only 60 years for LI workers. Generally, because these compulsory retirement ages are legally enforced by employers, so it is quite definite that all government employees will compulsorily retire at that age. But for the employees in private sector, their retirement ages will differ greatly.

Secondly, in the aspect of contribution, the minimum requirement of contribution is also different in these two schemes. The minimum period of contribution in GEI is 5 years, but it is only 1 year in LI. For GEI insured persons, as long as they can fulfill one of the two conditions, 1)having contributed for 5 years at 60 or 65, or 2)having contributed for 25 years at any age, then they are entitled to GEI old age benefit. But for LI insured persons, the required retirement ages between Labour Standard Law and LI are inconsistent. In LI the minimum requirement of age for male is 60 years in normal cases and 55 years in special cases. But it is 5 years less for female in the same case. For LI insured persons, although they are allowed to retire as long as they have served or contributed for 25 years, they are not certainly entitled to LI old age benefits if their actual age is not above the minimum requirement.

On the contrary, as age is not a requirement for old age benefit in GEI, dismissed employees are also allowed to claim their old age benefits as long as they have

contributed for 5 years since 1979. For many retirees in both GEI and LI, as their ages have not reached 65 years old when they retire, especially since some retirees in GEI are even younger than 50 years old, so the officially entitled 'old age' benefits are actually 'retirement' benefits.

The amount of retirement payment is determined by the number of months and the level of insured wage per month; and the number of months is determined by insured years (see Table 8.12). One's number of months times one's insured wage, that is the amount of retirement payment.

Table 8.12 The Number of months and the Amount of Old Age Payment of GEI and LI

Scheme	Retirement Payment	Sequence of Year					
		*1-10 £5-10	11-15	16-19	20	21-30	31+
LI	months of payment for each year	1	1	2	2	2	0
	accumulation of months of payment	*1-10	11-15	17-23	25	27-45	45
GEI	months of payment for each year	1	2	3	4	0	0
	accumulation of months of payment	£5-10	12-20	23-32	36	36	36

Source: summarised from LI and GEI laws

As the GEI scheme was established in 1958, the old age benefit could be mature only after 5 years' transition in 1963. Actually the average months of benefit in that year is 5. Afterwards, the average months on benefit keep growing as the average insured years increase. And the increase of average insured wage also plays a very significant role in the increase of the amount of retirement payments (see Table 8.13).



Table 8.13 Old Age Benefits of GEI

year	insured year	months of benefit	insured wage	number of claims	amount (1,000)	amount/case (1,000)
1963	5.0	5.0		41	255	5.3
1965	6.3	5.9	847.3	1 032	7 353	7.1
1970	10.8	11.7	1 833.8	2 624	68 350	24.0
1975	15.2	21.5	2 726.4	3 703	251 763	68.5
1980	19.6	31.6	6 368.3	6 012	1 308 786	218.7
R:				5 888	1 295 958	220.1
D:			5 489.0	124	12 828	103.5
1984	21.7	31.3	8 667.1	7 206	2 291 421	318.1
R:	22.4	32.4		6 631	2 203 044	332.3
D:	13.5	18.2	8 430 0	575	88 378	153.7

Note: From 1979 on, the number of claims includes dismissals(D).  
 Because the figures of claims of retirees(R) and dismissals  
 and the amount per case of dismissals are published,  
 so the amount of retirees and dismissals and the amount  
 per case of dismissals can be calculated as in the table.

Source: CTC, 1985:54-55, 87, 136, 154-155,

Table 8.13 is compiled from several pages of the official GEI statistical data book. The figures do not thoroughly fit when we do a cross check of each other. The possible reasons could be: firstly, errors or different bases of statistics; secondly, the average insured wage of retirees are significantly higher than the insured wage of total insured persons. According to the author's research, the average insured wage of retirees in 1984 was NT\$10,300, but the official figure for all insured persons was only NT\$8,700. We also find that the amount of payment per case increases steadily and rapidly due to the increase of insured wage. The average amount of payment per case of retirees in official statistics in 1984 was exactly the same as that of the author's research, NT\$332.3 thousand (see Table 8.13). As the average consumption expenditure per head in the Taiwan Area in 1984 was NT\$4,341 (see Table 7.1), this amount of payment could last for about 76.5 months or 6 years and 4.5 months for a single retiree. Of course, we realise that the average expenditure of retired persons would not likely be as high as average consumption expenditure per head. However, although the concept of 'average' can give us an idea about the total expenditure, it cannot really give any help to solve the practical problem of those whose retired



income is less than average.

As for LI, the published statistics are not so detailed as GEI. And the items of statistics are also different. Originally the statistics included only the figures of claims, amount of payment, and the average amount per case. From 1979 on, a benefit of reduced rate was introduced for those who were not up to required retirement age. The reduced benefit will be 4% less for each year short of required retirement age. The maximum allowed is for 5 year earlier. The amounts of benefit per claim of reduced rate are much higher than those of full rate because they had a longer period of contribution (see Table 8.14). But even the amounts of reduced rate benefit are less than those of GEI though their average months of benefit are quite similar to GEI. The main reason was that the insured wage of LI was less than GEI. As for the amount per claim in the the author's research, it was NT\$175.6 thousand. Although it was a little higher than the official figure, it was falling between that of full rate and that of reduced rate of official figures. Linking to the average consumption expenditure of the Taiwan area in 1984, the author's figure could last for 40.5 months or 3 years and 4.5 months, but the official figure could last for only 36.2 months or 3 years for a single retiree.

Table 8.14.1 Old Age payments of LI

Year	Total				
	number of claims	NT\$ per claim (1 000)	insured wage of total (1 000)	insured wage of retirees (1 000)	months per claim
1976	7 217	42.7	2.5	2.8	15.3
1977	7 854	54.0	2.9	3.3	16.4
1978	8 197	70.0	3.3	3.7	18.9
1979	11 652	92.0	3.7	4.2	21.9
1980	13 883	99.5	4.5	5.1	19.5
1981	15 158	106.6	5.3	6.0	17.8
1982	19 136	120.5	5.6	6.4	18.8
1983	19 545	150.0	6.4	7.2	20.8
1984	19 630	157.1	7.4	8.4	18.7

Source: BLITF, 1985: 88, 218-219

Table 8.14.2 Old Age Payments of LI

Year	Full Rate			Reduced Rate		
	number of claims	NT\$ per claim 1 000	months per payment	number of claims	NT\$ per claim 1 000	months per payment
1976	7 217	42.7	15.3	-	-	-
1977	7 854	54.0	16.4	-	-	-
1978	8 197	70.0	18.9	-	-	-
1979	9 978	84.2	20.0	1 674	138.5	33.0
1980	11 002	88.5	17.4	2 881	141.8	27.8
1981	12 137	96.7	16.0	3 021	146.3	24.4
1982	15 578	107.3	16.8	3 558	178.3	27.9
1983	15 410	128.3	17.8	4 135	230.7	31.9
1984	15 605	132.1	15.7	4 025	253.9	30.2

Source: BLITF, 1985: 88, 218-219

Lastly, according to the author's survey in 1985, when we compare the distribution of lump sum old age payments by five equal size groups of retirees, we find that both the amount of the lowest fifth and the ratio of the highest fifth to the lowest fifth of LI were much worse than that of GEI. That is, in every aspect the old age benefit of GEI is better than LI (see Table 8.15). Moreover, because the coverage and the contribution revenue of LI has greatly extended in the latest decade, so in theory more old age reserves must be made, but in practice its annual account has been in red since 1986. According to an informal calculation of LI senior officials, although there is some old age reserve, if its insured persons who are of retirement age retired at the same time, LI would go bankrupt immediately. So the LI scheme is in a serious financial crisis.

Table 8.15 Distribution of Old Age Benefits by Five Groups of Equal Size, 1984 (in thousand)

Group	GEI		LI	
	mean	%	mean	%
Lowest fifth	169.3	10.2	31.4	3.6
Second fifth	280.0	16.9	67.3	7.7
Third fifth	333.3	20.0	122.3	13.9
Fourth fifth	392.2	23.6	237.7	27.1
Highest fifth	486.7	29.3	419.1	47.7
Ratio of the highest fifth's income to the lowest fifth			13.35	

Source: author's survey

## 8.6. Benefits in Kind

In GEI there are benefits in kind for maternity, sickness and injury. But in LI this kind of benefit is only provided for sickness and injury. Except the retirees who are also entitled to join the subordinate schemes such as RGEI (or HIRGE and HISRGE after 1985) and HIGED, all other retirees lose their entitlement to this kind of benefit whenever they retire from GEI or LI. However, the utilisation of this kind of benefit is much higher than all other benefits in these two schemes.

As the rates of claims for benefits in kind were rather stable over the time (see Table 8.7), so the change in the number of claims was mainly caused by change in the number of insured persons (see Table 8.1). As for the number of inpatients of maternity in GEI, as one claim of an inpatient always means a birth of new born baby, so the decline in numbers in recent years could demonstrate the decline of the birth rate of insured persons in GEI. In the same contingency the increase of outpatients in GEI also demonstrated that the number of prenatal check-ups per pregnancy had increased from 2.6 visits in 1970 to 5.5 visits in 1984 (see Table 8.16).

The cost per visit of outpatients and per spell of inpatients in both schemes continuously increased over time (see Table 8.16). Generally the first reaction to

explain this increase might be inflation of the economy. According to price indices (see Table 8.17), it was true that the wholesale price index and the consumer price index kept increasing before 1981. But after 1981 they were very stable. So inflation could not explain all the facts. The other more important cause for this increase was the escalation of the quality of health services. This objective may be achieved through the increase of the number of services per patient visit and per inpatient day, or through the use of more elaborate and advanced diagnosis and therapy, etc. Generally, health services are not only very labour-intensive, but also very technology-intensive. Especially under a free market of medical services, not only the physicians have clinical freedom to decide on the diagnosis and therapy in order to do the best for their patients but also the patients have a free choice of the hospital or clinic they wish to attend or even the doctor they wish to visit. The introduction of social health insurance which will pay the medical bills for patients will certainly reinforce the rising of medical expenditure.

Table 8.16 The Number of Claims and The Amount Per Claim of Benefits in Kind

year	GEI				LI	
	MA		SI		SI	
	OP	IP	OP	IP	OP	IP
Claims (1,000)						
1976	95.0	30.4	2 939.1	40.1	13 219.1	117.2
1979	83.4	28.8	3 098.2	40.7	20 623.6	163.8
1980	89.8	28.6	3 200.0	41.4	23 800.1	183.4
1981	100.4	29.5	3 411.6	44.4	26 544.6	214.8
1982	139.6	29.7	3 474.5	46.4	29 581.5	253.4
1983	136.8	26.2	3 737.7	40.5	31 780.0	273.6
1984	141.4	25.5	3 906.8	41.6	35 923.3	320.0
Amount per Claim (NT\$)						
1976	53	1 825	87	4 578	66	4 615
1979	76	2 789	125	6 648	93	7 518
1980	102	3 992	151	8 541	122	9 760
1981	144	5 506	189	11 059	152	13 809
1982	174	6 396	216	12 075	180	15 245
1983	205	8 444	240	15 969	192	16 983
1984	240	9 448	278	19 530	214	19 079

Note: MA = maternity  
SI = sickness and injury  
OP = outpatients  
IP = inpatients

## Sources:

- 1) CTC, 1985: 240, 236-237
- 2) BLITF, 1985: 276-277

Table 8.17 Indices (1981=100)

year	wholesale price	consumer price	manufacturing wage
1978	67.2	65.8	56.8
1979	76.5	72.3	68.7
1980	92.9	86.0	84.3
1981	100.0	100.0	100.0
1982	99.8	103.0	109.7
1983	98.6	104.4	116.6
1984	99.1	104.3	134.6
1985	96.6	104.2	132.2

Source: CEPD, 1986a: 175

Except in 1984 the average cost per claim of inpatient service of LI was higher than that of GEI every year. On the other hand, the cost per visit of outpatient service of GEI was higher than that of LI every year. For inpatient service the patients of these two schemes attended almost the same hospitals and were charged by the same standard. Its difference might be caused by these two factors: first, the heterogeneity of these two population groups and, second, the method of calculating GEI figures. Research had been done on this issue by Prof. Kaim-Caudle and the author in 1982 (1984: 29-31). As most insured persons in GEI are white collar and non-manual workers (its blue collar are included in LI) whilst the great majority of insured persons in LI are blue collar and manual workers, their differences in industrial risk, industrial accidents and disease patterns are certain to lead to differences in average length of stay and cost per inpatient case. In addition, the GEI inpatient cost for the year is the aggregate of the 12 monthly payments divided by the aggregate of the patients hospitalised each month. This method implies that a patient whose spell (episode) in hospital extends over two months, for example from June 29th to July 5th, would be counted twice. The over-counted number of inpatients would reduce the cost per case. But why was the cost of GEI in 1984 higher than LI? It is a new question we can answer only by an additional study.

As for the reasons why the cost of GEI was higher than LI for outpatient treatment, its reasons could be suggested as three (Kaim-Caudle and Chin, 11,31). Firstly, in LI almost three quarters of outpatient visits were made to small private hospitals and clinics where the average cost was only NT\$107. Yet in GEI 42% of outpatients were made to its own Central Clinics and 14% of cases were made to Provincial and City Hospitals at both of which the cost per visit was in excess of NT\$200. Secondly, in LI as the payments from insurer to these hospitals and clinics were so low, the outpatients were always charged two certificates for one visit or asked to visit twice. This rate was found to be about 14%. So the number of visits which was counted by the number of certificates was certainly over-counted. This

would lower the cost of the outpatient visit in LI. On the other hand, GEI patients pay a uniform registration fee at the rate of NT\$20 to the contracted hospitals while LI patients have to pay whatever fee is demanded by their contractors. And then GEI has to pay its contractors the remaining registration fee. This payment would add about 5% of the cost of an outpatient visit in GEI.

Table 8.18 Participation Rate and Enrollment Rate  
in RGEI

Year	Number of GEI Retirees	New Insured Persons in RGEI	RGEI Insured Persons	Participation Rate of GEI Retirees	Enrollment Rate in RGEI
1977	4 467	1 086	8 662	24.31	12.53
1978	5 243	1 016	8 959	19.38	11.34
1979	5 709	858	9 076	15.02	9.45
1980	6 012	854	9 212	14.20	9.27
1981	7 633	827	9 222	10.83	8.97
1982	8 008	877	9 327	10.95	9.49
1983	7 465	1 068	9 637	14.31	11.09
1984	7 206	1 115	9 922	15.47	11.24

Source: CTC, 1985:

Both GEI and LI are strictly employee-related, all non-employees are excluded. However, some of the subordinate schemes, RGEI, HIGED, HIRGE and HISRGE are available for GEI retirees and their spouses provided they are able and willing to make contributions while retired. Among them, the HIGED which is available only for the spouses at present will extend to include non-adult children and parents of the government employees in the future. Apart from HIGED, the participation in these subordinate schemes is voluntary, so their rates (the proportion of newly insured persons to the GEI retirees) are quite low. In 1984 the participation rate was about 15.5%. Even after deleting the number of dismissals, the rate was only 16.8%. That is, there were 84.5% or 83.2% of GEI retirees not joining RGEI in 1984. The newly insured persons in RGEI was only 11.2% (ie, enrollment rate) in the same year (see Table 8.18).

Then, how about the health care of the 84.5% or 83.2% of retirees who did not



join RGEI? According to the author's survey in 1985, the participation rate in a health scheme was as high as 58.4%. Compared to actual figure in Table 8.18, explicitly, this rate is too high. Reasons for this need to be pursued in a further study. However, the reasons found in the survey for those who did not join RGEI gave very useful information. For those who did not join RGEI but had proper health care through other sources of service, their sources could be listed as follows: 1)34.9% of them were veterans; 2)4.7% of them joined LI by getting a new formal full-time job; 3)11.0% of them joined HIGED through their government employed spouse; 4)6.4% of them could get free military medical care through the status of military servants' dependants. Therefore, there were only 17.9% of GEI retirees who did not join RGEI and failed to get suitable medical services. The main reason that they did not join RGEI was that contributions were too high. There were 20.9% attributed to this reason (see Table 8.19). Generally, health insurance is not a good way to provide health services for retired old people even if it is pooled in the same scheme with younger people, because their contributions will be much higher than those before their retirement. But, on the other hand, their incomes have greatly declined after their retirement. Whenever they are unable to contribute, the services will be discontinued. This is unlike pension schemes, where one does not need to pay contributions any more after retirement.

In LI, there were 27% of retirees who were veterans. They could get free medical services from veteran hospitals; 0.2% of them were the dependants of military servants and could get free medical services from military hospitals; and 1.0% of them were GEI retirees and also joined RGEI. The rest of retirees in LI had to self-finance their medical services.

Table 8.19 Reasons for Not Joining RGEI

Reason	N	%
1)veterans, getting free medical care from veteran hospitals;	60	34.9
2)reworking, joining LI;	8	4.7
3)joining HIGED;	19	11.0
4)dependants of military servants, getting free medical care from military hospitals;	11	6.4
Subtotal (1-4)	98	57.0
5)contributions too high;	36	20.9
6)no confidence in medical care of GEI;	3	1.7
7)long queue to see a doctor;	3	1.7
8)having good health;	11	6.4
9)unknown;	21	12.2
Subtotal (5-9)	74	43.0
Total	172	100.0

Note: The total GEI samples was 413.

Source: athor's survey

### 8.7. Merits and Limitations

As we have described in previous sections, there are several essential characteristics in social insurance in Taiwan. (1)They are roughly divided into three main systems and five or nine minor subordinate systems. Each system covers only definite prescribed categories of population. (2)All three main systems are comprehensive. Each of them covers similar contingencies, ie, maternity, sickness, injury, old age, disability and death. (3)All three systems are strictly employment-related or, more precisely, employee-related. That is, all insured persons must be in employment. Whenever an insured person is unemployed, dismissed or retired, he will lose his status of insured person and his entitlement to benefits. (4)All three main systems adopt a low contribution rate policy. The contribution rates are not only very low but also largely borne by employers. (5)Almost all cash payments are paid in lump sum. (6)All cash payments are contribution-related, ie, all cash benefits are calculated on the basis of insured wage.

These six characteristics of social insurance certainly have their merits. That is,

(1)separate systems make the start or the establishment of a new scheme easier because a small scheme is always easier than a large one; (2)a comprehensive system makes the collection of contributions simple and easy; (3)an employment-related system can guarantee the ability to pay contributions; (4)low contribution policy is welcomed by both employees and employers so avoiding strong objections; (5)lump sum payments make the administration of the system simple and easy; (6)strict contribution-relatedness makes the system actuarially sound and simple.

However, their limitations and weaknesses are also derived from these characteristics. (1)Firstly, it is an administrative waste to have three administrations to administer similar groups of contingencies. Separate systems mean a smaller number of insured persons in each system. And a small number is contradictory to the principles of large numbers and risk-pooling of social insurance. So it is difficult for the administration to reach its optimum of economy and efficiency. Furthermore, separate systems certainly will cause difficulties of labour mobility. If an insured person wants to change his job from this system to another system, he will either lose his retirement payment in the previous system or he has to retire twice or more. Furthermore, divided systems also cause the double claims for one contingency. For example, if a couple participate in different systems, then both of them can claim maternity benefits and funeral allowances from their own insurance. But if they join the same scheme or only one of them is an insured person, then they can claim only one benefit.

(2)As a comprehensive system will cover all prescribed contingencies, firstly, the quality of covered contingencies differs so greatly that it certainly leads to the complexity of management, both in accounting and administration; secondly, this measure is explicitly unfair to part of the insured persons by requiring them to be insured for some contingencies that will never occur to them. For example, single workers and old workers, especially old female workers, may not or even never claim maternity benefit and a majority of young female workers will not work until they

retire so they will not claim old age benefits, but they have to pay the contributions for these contingencies. This case is unreasonable just like requiring the persons who do not have motorcars to buy motor vehicle insurance. As one of the basic principles of social insurance is risk-pooling, in principle, the contribution had better be contingency-related in order to meet the principle of individual equity. In addition, if a couple join the same system, they have to pay double contributions for some contributions such as maternity because they can claim only one benefit for that contingency.

(3)The characteristic of employment-relatedness will deprive the entitlement of many insured persons and exclude the people who are in need. For example, if an insured person quits his job, either by being dismissed or retired, he will lose his membership of the scheme and therefore lose all other benefits that he has ever contributed to. He even loses his retirement benefit if he does not meet its requirements. Old people certainly need more medical care, but they are excluded whenever they retire and lose their status of employment.

(4)Though a low contribution policy is welcome by both employees and employers, its logical result is that the benefit will be very low. In turn, low levels of lump sum retirement payments will make a pension scheme either impossible or meaningless. Furthermore, low ratios of insured wage to actual wage makes this situation worse. According to the data of 1984, the lump sum retirement payments of GEI could last about 6 years and that of LI could last only 3 years if the retired persons wanted to maintain the average living standard. As the average retirement age was 60.7 years in GEI (CTC, 1985: 158) and 61 years in LI (author's survey) and the life expectancy at 60 years was 18 years (DOH, 1985: 61) in 1984, so the life expectancy at retirement age was about 17 years for both LI and GEI retirees in that year. Therefore, the proportion of an average retirement covered by average retirement payments is only 18% for LI retirees and 35% for GEI retirees.

(5) From the individual point of view, a lump sum payment is not a good provision for old age in many cases because, firstly, it cannot avoid suffering from inflation, secondly, nobody can make a consumption plan for his retirement payment because nobody can know his life span.

(6) The close relationship of cash benefit with contribution will restrict the adoption of a pension scheme and survivors' scheme due to the actuarial difficulty.

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## **CHAPTER 9**

### **THE OPTIONS FOR CHANGE**

#### **9.1. Introduction**

As the purpose of this chapter is to raise some options for change for Taiwan according to the facts presented in previous chapters, so a very brief summary of these facts will be made as a first step. The discussion of options will be divided into two parts: a)a macro-discussion on the whole system of social security and b)a micro-discussion on the individual provision of social security. Both of them will be based on the same criteria. But in macro-discussion much attention will be paid to the mutual relationship among different criteria in order to achieve a harmonious and efficient social security system. As for micro-discussion, which must be based on the macro-arrangement as its precondition, because the discussion will be concentrated on only one provision of social security in each section, so the discussion will be closely linked with the current facts in Taiwan. The aim of this chapter is to find some ways to strengthen the existing provisions, or even to create some new ones, without causing any contradiction or undesirable side effects for the macro-system.

#### **9.2. The Summary of Facts**

Taiwan is a very small country. Her density of population is the second highest in the world among the countries with a population over 10 million. The country's population structure is still quite young, old people (aged 65 and over) are only about 5% of the total population nowadays. We can expect that the population will keep growing, and the population pressure will be more severe in the future. According to population projections, the population would reach a ZPG state between 2022 and 2027 with a population of about 24 to 25 million. At that time, the proportion of old people would be about 15% to 17% of the total population. From the point of social security, the expenditure to support old people will be three times heavier than today provided the support level is the same as today. The ability of the next generation to



support this will become a very crucial element in the field of social security. Any policy consideration of social security must not ignore or under-estimate this element.

Furthermore, the economic situation of Taiwan has also changed greatly. The labour force employed in primary industry has reduced from 56% in 1952 to 17% in 1986. That is, 83% of the labour force is employed in secondary and tertiary industries. This change of economic structure demonstrates that a great majority of the labour force are forced to live on earned income. Their source of income is at greater risk and becomes more uncertain. More formal and reliable income security is therefore necessary. Fortunately, the per capita GNP of Taiwan has increased from less than US\$100 before 1950 to about US\$3,000 in 1985 and to US\$5,000 in 1987 (and US\$6,000 in 1988) at the market price. Although quite a high percentage of the increase in the past two years was owing to the inflation of the US dollar and the appreciation of the Taiwan dollar, the increase was still very significant. This successful economic achievement provides a good basis to develop existing provisions or even to establish some new ones.

Both in theory and in practice, we expect the family to play a vital role in social security in Taiwan, but what is its real function? The most reliable indicator that can show this function is the rate of co-residence of old parents with their children. Nowadays this rate is still as high as 67%. It is still a very important old age provision in Taiwan. But according to several research studies, both in attitude and in fact, the rate of co-residence will tend to decline in the future for several reasons. And this trend has further led to a decline of family (or household) size, so the social security function of family will be weakened in some degree. This development, the decline of the co-residence rate, does not necessarily mean a great harm to the supporting obligation of children because the children may still financially support their parents even if they do not live together. However, this will make the family's function of social security less reliable and more expensive than before. Apart from single persons and married persons without children, the health, economic ability, life

style and attitude of children will greatly influence the function of social security of family. Much evidence demonstrates that disabled, low income and selfish children are not only not a reliable source of income of a family but a great burden.

As family has its limits as a provision of income maintenance for the elderly in Taiwan, the other available sources are employment and private savings. But when the elderly grow older and older, these two sources will be more impossible or finally exhausted. As for social security, as only a minority of people are covered in social insurance, the number of old people who can totally depend on retirement payments are even less because not only is the amount of retirement payments quite small, but most of them are paid in a lump sum. Especially, as indicated in Table 8.8, the average ratio of contributions of retiring group is only 0.64, its replacement ratio will be the same. So the full rate of benefits is only average 64% of working income of the retirees. Including occupational retirement payments, even if their total old age lump sum payments are the maximum of insurance and occupational payments: 90 months for LI retirees, 97 months for GEI retirees and 106 months for MI retirees, they can last only 7.5, 8.1 and 8.8 years respectively. Compared to the 17 year average life expectancy at actual retirement age, 61 years, these maximum retirement payments can meet 44%, 48% and 52% in LI, GEI and MI respectively. For those whose payments are less than the maximum, their situations are even worse.

Finally, social assistance, either in cash or in kind, will be only the last resort in Taiwan due to its inadequacy in amount. Furthermore, this resource will be accompanied by an unpleasant side effect, stigmatising.

In summary, in Taiwan all existing provisions of social security have their own limits and weaknesses, so how to solve these problems and to make the option of provisions comes to the focus of this chapter.

### 9.3. The Criteria for Options and Planning

As mentioned in Chapter 2, all provisions of income maintenance have their inherent merits and limitations. However, in this thesis on the discussion of policy options, we will concentrate on only family and social security rather than other provisions such as employment or savings, because in Taiwan these two provisions are not only the main source but also the last resort of income maintenance provisions for the elderly. In the field of social security, historically, the first reaction to deal with the problem of income insecurity is social relief or social assistance. In theory this provision is not only applicable to all people of a society but should also be able to meet the needs of the people. Unfortunately its weakness is its side effects of stigma, disgrace, disincentive to voluntary actions and high administrative costs by its formality of means-test. Later, the provision which can avoid the weaknesses of social assistance was introduced. It is social insurance. But social insurance also has its own weakness: exclusion, both in contingencies and in coverage. Finally, universal allowance which aims to avoid all weaknesses of the previous two provisions was recommended. Its own weakness is its benefits level will not be guaranteed to meet the needs if the pre-condition of an affluent economy is not existent.

As these three provisions of social security by nature have their own merits and weaknesses, the option and planning of social security are dependent on what objectives we want to achieve. As mentioned in chapter2, four criteria ---- equity, adequacy, economic efficiency, and administrative efficiency ---- are applied in this thesis. Among them the criterion of equity can be further classified into three sub-criteria: vertical equity, means horizontal equity and outcome horizontal equity. In the field of social security, in theory and in ideal, it will be the best if all these criteria can be achieved simultaneously, at least not to sacrifice any one of them as the price to achieve another one. But, in practice, as different benefit provisions and financing methods have different merits and limitations to achieve these criteria, it is in fact

impossible to achieve those criteria simultaneously without a delicate design. For example, according to Table 2.4, if we want to pursue the objectives of 'vertical equity' and 'outcome horizontal equity', more emphasis should be put on social assistance rather than on universal allowance and more emphasis on progressive taxes rather than on flat rate ones. But, on the other hand, if we want to pursue the objectives of 'economic efficiency' and 'administrative efficiency', then more emphasis should be put on universal allowance rather than on social assistance and more emphasis on flat rate taxes rather than on progressive ones.

Even within a given provision of social security, we are also able to put more emphasis on certain criteria by applying different practical measures. For example, according to Table 2.4, if the provision of social insurance is flat-rate, it will be helpful to achieve the criteria of 'means horizontal equity' and 'administrative efficiency'; but if the provision is earnings-related, it will be helpful to achieve the remaining criteria of 'vertical equity', 'outcome horizontal equity' and 'economic efficiency'. In universal allowance, sub-universal provision will be advantageous to achieve the criteria of 'vertical equity', 'outcome horizontal equity' and 'economic efficiency'; but the all-universal provision will be advantageous to achieve the criteria of 'means horizontal equity' and 'administrative efficiency'. Each provision has its own irreplaceable merits. Facing these exclusive or even contradictory options, explicitly, the final policy-making must be left to political procedure.

As mentioned in chapter 2, apart from the provision of benefits, the method of financing is also a very important element in the pursuit of given criteria. Up to the present because the main financial source of social security is from only one productive factor, labour, so its main financing methods are taxes and contributions. Among them the main financial source of social assistance and universal allowance is taxation and that of social insurance is contribution. As the rates of tax can be flat-rate, proportional and progressive and that of contribution can be flat-rate or earnings-related, as demonstrated in Table 2.4, progressive (and proportional) taxes

and earnings-related contributions have a better function to achieve the criteria of 'vertical equity', 'outcome horizontal equity' and 'adequacy'; and flat-rate taxes and contributions have a better function to achieve the criteria of 'means horizontal equity', 'economic efficiency' and 'administrative efficiency'.

Compared to social insurance and universal allowance (see Table 2.4), in theory social assistance will be able to achieve first rank in 'vertical equity' and 'outcome horizontal equity' in benefit aspect due to its high selectivity and 'unequal treatments for unequals'; in financing aspect it will be able to win the additional first rank in 'means horizontal equity', 'economic efficiency' and 'administrative efficiency' if it is financed by a flat rate tax, or it will be able to win the additional first rank in 'vertical equity', 'outcome horizontal equity' and 'adequacy' if it is financed by progressive or even proportional tax. But, in practice, in Taiwan at least according to its regulations, in benefit side the zero income test will make the achievement of 'outcome horizontal equity' impossible because, for those who have some income but not as high as actual assistance, their living standard will be lower than assistance receivers. And worse, the actual assistance level in Taiwan is lower than its official subsistence level. The criterion of 'adequacy' is ignored.

As for universal allowance, because its benefits are generally flat-rate, so it will be able to achieve first rank in the criteria of 'means horizontal equity', 'economic efficiency' and 'administrative efficiency' in benefit aspect; But in financing aspect, in theory a universal allowance can be financed by either flat-rate tax or progressive tax (including proportional tax), but in practice it is financially infeasible to finance a universal allowance by flat-rate tax. So, in financing aspect, it will be able to win first rank in 'vertical equity', 'outcome horizontal equity' and 'adequacy' only because the scheme is financed by progressive tax.

As for social insurance, compared to social assistance and universal allowance, its ability to achieve each criterion is in the middle. But within the field of social

insurance, because both its benefits and contributions can be either flat-rate or earnings-related, so its combinations will be four as follows (see Table 2.4): 1)if flat-rate benefits are financed by flat-rate contributions, then the scheme will be able to achieve the criteria of 'means horizontal equity' and 'administrative efficiency' in benefit aspect, and 'means horizontal equity', 'economic efficiency' and 'administrative efficiency' in financing aspect; 2)if flat-rate benefits are financed by earnings-related contributions, then the scheme will be able to achieve the criteria of 'means horizontal equity' and 'administrative efficiency' in benefit aspect and 'vertical equity', 'outcome horizontal equity' and 'adequacy' in financing aspect; 3)if earnings-related benefits are financed by earnings-related contributions, then the scheme will be able to win the criteria of 'vertical equity', 'outcome horizontal equity' and 'adequacy' in financing aspect, and 'vertical equity' and 'economic efficiency' in benefit aspect; 4)if earnings-related benefits are financed by flat-rate contributions, then the scheme will be able to win the criteria of 'vertical equity', 'outcome horizontal equity' and 'economic efficiency' in benefit aspect and 'means horizontal equity', 'economic efficiency' and 'administrative efficiency' in financing aspect.

Facing these four possible options, in Taiwan, due to the popularity of medium and small scale of enterprises and self-employment (as high as 98% of all enterprises), a flat-rate financing method will be more feasible and equitable than an earnings-related one. If so, because it is only reasonable and equitable for flat-rate contributions to finance flat-rate benefits rather than earnings-related benefits, so the logical result is that only the first combination in social insurance will be the major provision in the future.

In summary, the discussion above is mainly based on one productive factor, labour, and its corresponding financing methods, taxation and contribution. As mentioned in chapter 2, the current tax-financing method is not an efficient way to finance an all-universal allowance, but it is still feasible to finance a sub-universal allowance. So, if we confine universal allowance to only sub-universal allowance,



then, based on tax-financing method, we can still make a rational multiple provisions planning according to the strategy of contingency-division which was initiated by Beveridge.

For example, based on the principle of 'the division of labour', all regular contingencies can be tackled by social insurance or universal allowance. Among them, the short-term contingencies can be tackled by social insurance and long-term contingencies can be economically tackled by universal allowance. As for irregular contingencies and extra particular needs, they can be tackled by social assistance. Moreover, within the field of social insurance, it is even possible to arrange primary social insurance schemes to provide only flat-rate benefits at primary adequacy level, and the earnings-related benefits which aim to achieve the objective of secondary adequacy may be left to secondary social insurance schemes such as occupational schemes and private insurance.

Under a design described as above, because different contingencies are technically tackled by different schemes and different benefits are provided by different provisions according to their merits, so all four criteria would be able to achieve rationally to their maximal level and all side effects and shortcomings might be reduced to their minimum even though these criteria are by nature conflicting to some extent.. Therefore, we may conclude that the better policy of social security for old people is to multiply their sources of income: not only the number of the sources but also the heterogeneity of their sources.

Under this general policy, we will discuss different sources separately in the following sections. The discussion will focus on, firstly, how to strengthen the existing provisions and, secondly, how to establish new provisions if it is necessary.



#### 9.4. Family

According to Figure 3.1, the income source of 'family' is the main item in 'voluntary actions'. Although 'family' is not formally considered as a social security provision, according to the description in chapter 2, it has the greatest advantage to achieve the special objectives of 'vertical equity', 'secondary adequacy' and 'economic efficiency'.

Both as an ideal and in fact, the family plays a vital role in social security not only in Chinese society in Taiwan but also in other oriental countries such as South Korea and Singapore (Chow, 1985). In normal cases all people are born in a family and grow up in a family. Family is seen as the most natural place for people to live and to spend their old age. For this reason the policy for old people to stay in their own family should be encouraged. However, only the plural family, a family with many members, can perform the function of social security. But the plural family can further be divided into conjugal (or nuclear) family, stem family and extended family. By definition, conjugal family is a family consisting of a couple with or without children; stem family is a family in which old parents live with their married children; and extended family is a family consisting of two stem families or two conjugal families or one stem family with one conjugal family. As there is a legal supporting obligation between parents and children, husband and wife in Taiwan, so the social security function of conjugal family and stem family is stronger than that of extended family. But for elderly people, the function of stem family is better than conjugal family.

In normal cases, as long as the couple is healthy and employed or self-employed, even though they do not have any children, (13.7% of married persons do not have children,) they will be able to make their savings or other provisions to protect their old age. However, these preconditions are not always present, let alone abnormal cases such as disability, illness, injury, unemployment, occasional employment and low pay. Even if this couple are normal, healthy and employed, and also have made a substantial amount of savings and property for their old age, if one of them

unfortunately gets a chronic and costly disease, they will spend all their money in a very short time. Especially since medical expenditure in modern society is so expensive that no one can be sure that they will be able to make sufficient funds or savings for this purpose. Therefore, conjugal family is just like a single person and quite easily comes to its limits. They have to depend on other statutory provisions, for example, social assistance. We will discuss its options in related sections.

What are the limits of 'stem family' which we want to emphasize particularly in this section as a social security provision? Simply, the social security function of this kind of family mainly depends on the earning ability of its children. And the earning ability depends on the children fulfilling the following preconditions:

1. the children must be normal, not mentally or physically handicapped or disabled;
2. the children must be healthy;
3. the children must be suitably educated and trained;
4. the children must be employed;
5. the children must be able to earn sufficiently;
6. the children are willing to live together with or to support their parents.

Even if the first 5 conditions are satisfactory, that does not mean that the last one will be satisfied automatically. So the discussion of the limits of stem family will cover all conditions.

Firstly, for disabled children, especially for totally disabled children, after several years', e.g., five years, being taken care of by their parents, the government might establish some special nursing homes to admit them in order to relieve the old parents' hardship. In that case the parents may voluntarily pay some contributions to the nursing home as a token to fulfil their obligation as parents. Of course, if the parents prefer to continue to take care their children, they should be able to get some special aid from the government. In Taiwan there is the well-known case of Miss

Hsiao-min Wang, a beautiful conductor of a tattoo band of a senior girls' high school. She was hit by a motorcycle when she was walking along the street about thirty years ago. She has been totally paralysed and disabled since that time. Her parents have taken care of her for thirty years. Now her parents are too old to take care of her. Several years ago, her mother appealed to society to let her daughter die by euthanasia. But the law did not allow it. What a long term affliction it is for this family. According to a report in a magazine, there were more than 100 such cases in Taiwan. For all parents with only disabled children, they should be treated as single persons or married persons without children; or at least as dependent children, not sources to depend on.

In the case of preconditions 3 to 5, as long as children are normal and healthy, the problem is easier than for disabled children because there is a good system of free occupational training and free employment service in Taiwan. About 50 thousand skilled workers have been trained by 12 public occupational training centres within 5 years from 1980 to 1984. Besides, the government also financed many private training agencies to provide half a year to one year's short-term occupational training for graduates from senior high schools and colleges and the people who are disabled. The total number was about 13 thousand persons in the same period of time. The employment service centres which are scattered over the whole country provide free placement service for all persons of working age. It is true that job-creating is mainly dependent on economic investment, economic development and other external economic conditions, placement service itself cannot create any job, but because people become less discriminating on the quality of the job and the level of wage, so people will accept jobs or create new jobs for themselves when they are unemployed. In Taiwan it is reported that many college graduates are employed as shopkeepers or waiters/waitresses, and many retired high ranking officers from military and government organise their own cleaners' companies. It is this work ethic that makes the unemployment rate so low in Taiwan. It was as low as 1.2% in 1980 and

somewhat higher, 2.4%, in 1984. Compared to industrialised countries, this is rather low.

In the case of the last limitation mentioned above, even if the children have a well-paid job, but do not have a good relationship with their parents and are not willing to live with their parents or to support them in later life, the problems are still there. As there is only legal obligation but no legal sanction for the children to support their parents if children do default their obligation, the parents will have no way to get help. For this problem, it might not be a good idea to push them into living together or to force children to finance their parents by formal legal action because old parents might be badly treated by their children. This will make things worse. Especially, this will contradict with our aim to encourage the co-residence of old parents with their adult children.

In order to achieve this aim, even sub-universal allowances are not an effective way because they are neutral, no incentive to encourage nor discourage. The more adequate way might be a special high 'tax deduction' or 'tax credit' for their children if they live together. For high income children, tax deduction may benefit them more; but for low income children, tax credit may benefit them more. In theory the amount of tax deduction or tax credit should be designed to be at least equal to or had better be higher than the level of universal benefits. Because both 'tax deduction' and 'tax credit' are provided only as an incentive or reward for the children who are optional to live with their parents, so whether to take those benefits are subject to the choice of the children. As there is no compulsion for co-residence, many side effects can be avoided. Moreover, the level of tax deduction or tax credit can even be prescribed according to age and other special conditions in order to meet needs. So this new measure can benefit the family substantially without stigmatising. It is a good incentive to encourage parents and their children to live together. It is not necessary to force all old people to live with their children if they prefer to live separately and they are able to do so. They are free to make their own choice.

However, this new measure must be based on a sound tax system, especially income tax system, then the level of tax deduction or tax credit can be worked out. In Taiwan as 98% of economic enterprises are of medium and small scale, and particularly many of them are run by the self-employed, so the accuracy of their income tax information is seriously in question. The feasibility of this new measure is therefore greatly reduced by this weakness. Furthermore, as most old parents nowadays have several children, and because the tax incentive is given by year, so this will reduce the residence freedom of parents at least within one year.

As there is an obligation for children to support their parents, it should be an appropriate policy not to allow some minority of well-off but selfish children to neglect their obligation to support their old parents or not to treat their parents well when they live together, these children should be required to pay a special "parents tax" if their parents cannot live independently or do not like to live with them (children) and have to apply for public assistance or to move into public old people's homes **unless** their gross income is less than the tax threshold or other given figure, because nowadays it is impossible for old parents to get any cash assistance if their children are well-off or to move into old people's homes if they have children. This provision of 'unless' will help some children who really have financial difficulties in co-residence with their parents or to support their parents. Because this kind of tax is applied to only the well-off children whose parents are so poor that they have to rely on public assistance, so its number will be very small. Even here there is some stigmatising effect on this group of children, but there will be no significant consequence on the whole of society.

### **9.5. Primary Social Insurance**

In general, as mentioned in section 3, due to the popularity of medium and small scale of enterprises and self-employment, there is a great difficulty in the assessment of earnings of the people. So, a universal social insurance scheme can be established for all employed people and non-labour force only if a flat-rate financing method is

applied in Taiwan. because it is only reasonable for flat-rate contributions to finance flat-rate benefits, so this combination will be able to achieve the criteria of 'means horizontal equity' and 'administrative efficiency' in benefit aspect, and 'means horizontal equity', 'economic efficiency' and 'administrative efficiency' in financing aspect.

As for the reform within the existing system, it must start from the existing conditions. As we have discussed in the previous chapter, there are six limitations or weaknesses in the basic characteristics of social insurance in Taiwan. Firstly, the separate systems cause waste in administration by having several groups of personnel to manage the same quality of insurance. Secondly, the comprehensive system providing benefits both in cash and in kind lead to a complexity of management in both accounting and administration and reduce their due efficiency. Thirdly, the characteristic of employment-relatedness or even employee-relatedness limits the growth of coverage. Fourthly, the logical result of a low contribution policy is a low level of benefit. Fifthly, as a provision for old age, the lump sum payments are vulnerable to the erosion of its value by inflation. Sixthly, the characteristic of insurance or contribution-relatedness will limit the schemes to concern only their insured persons, not their dependants. In summary, the last three characteristics mainly concern the level and quality of benefits. The third one concerns coverage. The first two concern the issue of efficiency. Based on the discussion in the previous chapter, we know that, not to mention their advantage, the main shortcomings of social insurance in Taiwan are: 1)low benefit level due to low contributions, 2)no option of pension, 3)there are still more than 30% of employed persons excluded from existing schemes, 4)administrative waste due to separate schemes for different industries. Therefore, the main objects of change or reform can also be listed, from the one which is easiest to start to the one which is the most difficult, as the following aspects:



1. to increase the level of benefit, ie, to achieve the objective of 'adequacy';
2. to improve the types of payments;
3. to enlarge the coverage of insured persons; and
4. to improve the efficiency of administration, ie, to achieve the objective of 'administrative efficiency'.

1) According to Table 2.4, because the existing social insurance schemes in Taiwan are earnings-related in both contributions and benefits, so in theory the objectives of 'vertical equity' and 'outcome horizontal equity' can be achieved at the first rank in both aspects simultaneously. But the 'adequacy' of benefit is mainly determined by the 'adequacy' of its corresponding contribution, so the increase of benefit must be followed by an increase in its contribution. In existing GEI and LI schemes, the increase of contributions can be divided into two steps. The first step is to increase the ratios of insured wage to gross wage of insured persons. At the present stage, the ratio of GEI is about 0.53 and that of LI is about 0.54 (see Table 8.8). Therefore, if these ratios can be raised up to 1.00 or 100%, then the benefits of GEI will increase 89% and those of LI will increase 85%. We can increase these ratios by one step or several steps. In LI the ratios of many insured persons in the retiring group are already as high as 1.0 or 100% in the author's research. So it is not impossible to raise this ratio of all other groups to this level. At present the ceiling of LI contributions is NT\$14,400, all wages over this ceiling do not need to pay contributions any more. As benefits are closely contribution-related, to increase or to phase out this ceiling is another way to increase the contributions of LI.

Moreover, the gross contribution rate of LI (including the rate of industrial injury) is 8.2%–11.0% and that of GEI is 9% of insured wage, comparing to those of industrialised countries, e.g., 19.5% in UK, 50.7% in France, 31.3% in West Germany, 18.9% in USA, 30.4% in Sweden and 20.5% in Japan, these rates are quite low. It is possible to increase these rates to a somewhat higher level. As the sharing of



contributions is mainly borne by employers, 80% in LI and 65% in GEI, the remaining 20% and 35% are borne by employees, and the government only subsidize the administration cost. So it is not surprising that any form of increase of contribution will cause the opposition of employers. For this reason, the increase of contributions should be accompanied by a revision of the sharing rate of contribution between employers and employees.

It is true that in the long run the increased burden on employers might be shifted to employees by delaying the increase or increasing less for their wages or shifted from producers (including both employers and employees) to consumers by raising the price. The employers (or employees) might in fact not bear the burden. However, the employers cannot raise the price arbitrarily only if the demand elasticity of their product allows it. Whether employers can raise the price or not, there is not much influence on employees because in most cases the employees will not consume their own product very much. Even if the employers want to shift the burden to their employees, it is only possible for them to shift it to higher income employees whose incomes are over minimum wage. The low income employees whose incomes are near minimum wage will be benefited by higher retirement payments in the future. Of course, a more fundamental and better way is simultaneously to accompany an increase in the productivity of workers and enterprises to increase their wages and gains, and then the higher wage will in turn increase the amount of contributions and tax revenue, but it will need a longer time to achieve.

As mentioned above, the existing earnings-related systems have the advantage to achieve the criteria of 'vertical equity' and 'outcome horizontal equity' in both contributions and benefits aspects, so the increase of benefit had better also improve the criteria of 'outcome horizontal equity' and 'adequacy'. As 'risk-pooling' is the main principle of social insurance, it is possible only if the coverage is also compulsory or there will be a reverse effect or negative selection. Besides, if we want to achieve the objective of income redistribution simultaneously, the contributions of social insurance

had better be earnings-related, ie, the high income earners pay more contributions. When the contributions of insured persons are closely earnings-related, then the benefits should also be earnings-related in order to fulfil the criterion of 'vertical equity', but this earnings-relatedness should also be only loosely related in order to give some room for 'redistribution' or radically to set a 'minimum income guarantee' for all, then the criterion of 'adequacy' can be also achieved.

2) Due to ubiquitous inflation in modern money economy and the uncertainty of life span from the individual point of view, a pension scheme is a better provision than a lump sum scheme to protect old age in an industrialised society. However, it will be a big policy-decision to change the existing lump sum old age provision into a pension one in Taiwan. Normally the existing lump sum old age provisions, both in GEI and in LI, are funded systems. But due to the characteristic of comprehensiveness and the lack of independent accounts for different contingencies, the reserves for old age are transferred to other contingencies such as sickness and injury. So the old age contributions are generally not fully funded. As the contribution rates of both GEI and LI are not fully actuarial, the insurance of GEI has been in deficit since 1966, 8 years after the establishment of the scheme. In 1984, in GEI the rate needed for the actual benefit expenditure should be 11.57% of insured wage, but the actual contribution rate was only 9.0%. As for LI, its annual insurance account has also been in the red since 1986. Even including employers' contributions for industrial contingencies, in 1984 the actual gross average contribution rate was only 8.8% of insured wage, its needed rate was as high as 8.2%. There was only 0.6% for old age reserve (see Table 9.1). But after 1986, because the balance became red, so the needed rate was certainly over 8.8%. Under this circumstance, it is explicitly impossible to establish a new pension scheme based on the past old reserve any more. As the balance has been red in both GEI and LI, so the financing methods of both GEI and LI are in fact an assessment or pay-as-you-go though they are still nominally funded.

Table 9.1 Contribution rates of Social Insurance in Taiwan, 1984

Contribution Rate		GEI	LI
Actual ordinary contribution rate		9.0	8.0
Actual industrial contribution rate(0.2-3.0)		-	0.8
Needed contribution rate (gross)		11.57	8.20
Benefits in Kind	Sickness and Injury	4.23	5.08
	Maternity	0.63	-
	Subtotal	4.86	5.08
Benefits in Cash	Disability	0.12	0.22
	Old Age	5.03	1.14
	Death	0.70	0.73
	Deaths of Dependants	0.50	0.32
	Sickness and Injury	-	0.12
	Maternity	-	0.59
	Subtotal	6.35	3.12
Administration		0.30	*
Others		0.06	-

Note: \* = subsidised by government at 5.5% of total contributions.

Sources: 1)CTC, 1985:102

2)Self-calculation

As there is no, or nearly no, reserve fund left in both GEI and LI, so newly introduced pension schemes would in fact not be different from any other newly established schemes even for insured persons who have insured for several decades. In theory there should be a possibility to reform or to create a new pension scheme based on either the funding principle or the pay-as-you-go principle. But in practice it is impossible and also unfair to require most insured persons, especially the older insured persons, to re-establish a new funded pension scheme. Therefore, unless the exhausted old age reserve can be re-established, it is impossible to establish a full-funded retirement payment, either a lump sum payment or a pension, any more. As I cannot see any possibility of re-establishing this huge reserve, I would expect that the transformation or the new establishment of the pension schemes for both GEI and LI would have to be based on only the pay-as-you-go principle.

Although social insurance pensions are financed by pay-as-you-go method, there

will be no significant change in their rank to achieve their original criteria. However as we have mentioned in chapter 2, the financial burden of contribution rates (or social security tax if the scheme is compulsory and universal) for the contributors to finance a pay-as-you-go scheme is determined by the following two factors: first, the ratio of earners (ie, employed persons) to pensioners and, second, the ratio of pension to net earnings (ie, current gross earnings of earners after deducting social insurance pension contribution). Generally, for the latter factor, in a democratic society because the level of benefit always faces a pressure to push up, so it is to be expected that the benefit level will keep growing or at least to keep steady. But for the former factor, we expect that the proportion of elderly persons in Taiwan will increase from 5% at present to 15% and more in three to four decades' time. That is, the ratio of earners to pensioners will change greatly during this three to four decades. According to a tabular form presented by Prof. Kaim-Caudle (see Table 2.2), we can see that the contribution rate will greatly increase in the future.

Excluding the insured persons of health insurance schemes, in 1984 the number of insured persons for old age benefit was about 4,694 thousand. As for the number of retirees, in the same year that of GEI was 6,631 or 7,206 if including dismissals; and that of LI was 19,630. So the retirement rate of these two main schemes was about 0.65% of the total insured persons. Suppose this retirement rate was also applicable to MI and other minor schemes, then the total retirees from the total insured persons of all schemes would be 30.5 thousand. Therefore, we would get the ratio of contributors to pensioners as 154:1 (4,694:30.5) if the pension scheme had been in force in 1984. This ratio was very large because only the retirees in 1984 were included. But if the pension scheme could compulsorily cover all employed persons and provide pensions to all old people aged 65 years and over (the number of retirees aged 65 and over is not available), then the ratio of earners to pensioners would still be 8.8:1 in 1984 and 8.5:1 in 1985 (see Table 9.2). When the replacement ratio, the ratio of pensions to net earnings, was also known or decided, then the contribution

rate could also be decided. According to Table 2.2, if the ratio of earners to pensioners is 8:1, and the replacement ratio is 1/3, then the contribution rate will be 4.0%.

The rate of employed persons (including military servants) in the population aged between 15 and 64 years was about 59.9% in 1984 and 59.3% in 1985. Let us suppose the same labour participation rate (including self-employed) will be about 60% in the coming decades, then we can calculate employed persons as Table 9.2 according to the low and the medium population projections made by CEPD. Assuming 'pensioners' will cover all old people, the ratios of earners to pensioners can also be calculated as Table 9.2. They will be 5.1 in 2000 and about 3.1 in 2020 and about 2.0 in 2030, or more precisely, 3.0 in 2022 and 2.3 in 2027 in which period the population will reach ZPG.

Table 9.2 The Ratio of Earners to Pensioners in Taiwan

year of year	15-64		employed persons		65+	ratio	
	low	medium	low	medium	L & M	low	medium
1984	13 276		8 132		922	8.8 : 1	
1985	13 562		8 264		973	8.5 : 1	
1990	13 520	13 520	8 112	8 112	1 233	6.6 : 1	
1995	14 628	14 628	8 777	8 777	1 572	5.6 : 1	
2000	15 602	15 602	9 361	9 361	1 844	5.1 : 1	
2005	16 310	16 347	9 786	9 808	2 085	4.7 : 1	4.7 : 1
2010	16 821	16 961	10 093	10 177	2 289	4.4 : 1	4.4 : 1
2015	17 064	17 336	10 237	10 402	2 576	4.0 : 1	4.0 : 1
2020	16 802	17 213	10 081	10 328	3 258	3.1 : 1	3.2 : 1
2025	16 326	16 875	9 796	10 125	3 986	2.5 : 1	2.5 : 1
2030	15 674	16 365	9 404	9 819	4 642	2.0 : 1	2.1 : 1

Note: Employed persons including military servants.

Source: Self-calculation (number in thousand)

From this very rough estimation, we can see that the ratio of earners to pensioners in Taiwan will change very greatly in the coming decades. In order to relieve the contribution burden of the next generation, one of the feasible ways to achieve this object is to adopt a semi-funded and semi-pay-as-you-go policy. That is,

the contribution should be high enough to have half of the contributions remaining to finance the existing benefit expenditure, and another half to provide reserve for future benefits. Or we may have another option, just as the British system has done, formally to set up two separate old age benefits: the flat rate pension financed by pay-as-you-go methods and earnings-related pension financed by funded earnings-related contributions. If a pure pay-as-you-go pension is to be established now, then, because the number of pensioners that employed persons in this generation have to support is quite small, the contributors are thus more able to and should contribute more, in order to aid the funding of future pension. This would also equalise the financial burden between generations. Finally, as the labour participation rate has a close relation with the number of employed persons, so it also has a close relation with the ratio of earners to pensioners. We can improve this rate in several ways such as raising the retirement age to reduce the number of pensioners or to provide more social services to help or to release more labour into the labour market to increase the number of employed persons.

In order to get a rough idea about the cost or the possible contribution rate in Taiwan if a pay-as-you-go pension is going to be in force in the near future, we need to suppose that 1) average wage as net earnings, 2) subsistence level as minimum pension level and 3) average consumption expenditure as maximum pension level. According to the actual statistics of Taiwan, in 1984 the average wage was NT\$13,698 (see Table 8.8) and average consumption expenditure per head was NT\$4,341 (see Table 7.1), so the maximum pension level would be  $1/3$ . Because the official subsistence level is prescribed as 40% of average consumption expenditure per head, so the minimum pension level could be only  $1/8$ . If we decide to take the level of average consumption expenditure as the level of pension, then the replacement ratio will be  $1/(3.16)$ , ie, roughly  $1/3$ . As the current ratio of earners to pensioners was about 9-1, according to Table 2.2, so the contribution rate would be 3.6%. But if we decide to take the subsistence level as pension level, by the same ratio of earners to



pensioners, then the contribution rate would be only 1.4%. But when the population approaches to the ZPG state in the future, because its ratio of earners to pensioners is about 3-1, so its contribution rate will be 4% at subsistence level (ie, when replacement ratio is 1/8) and 10% at average consumption level (ie, when replacement ratio is 1/3).

As the description above indicates, because the structure of population in Taiwan is still quite young, so it will be very cheap to establish a pay-as-you-go pension at its inception. But it will be very heavy to finance it within several decades. In addition with the financing of other benefits such as the health service, maternity, disability, unemployment and death, the total social security tax will be very high. Referring to the experience of Britain, this total cost could be at least a double of the pensions. Moreover, earners also have to pay general tax, so the total tax burden of income tax and contribution will be extremely high. We expect that a high rate of tax will influence the behaviour of tax-payers. For example, tax-payers may react to an increase in the tax rate in many ways just depending on what objectives they want to maintain or to achieve. If they want to maintain the same level of consumption, they may save less. If they want to maintain the same level of other savings, they may consume less. Or they may work harder and longer in order to maintain the same level of consumption and savings. In the most inactive case they may just consume and save less. However, we are quite sure that people will save less if the old age pension is very generous. Furthermore, we can even pursue the relationship between taxation and incentives (see Figure 2.4). Because higher tax means less reward for one's efforts, so, for higher income earners, there could be a 'substitution effect', ie, they will work less in order to avoid paying more tax and opt for more leisure; but for low income earners, they could have an 'income effect', ie, they will work harder or longer in order to earn more to maintain their necessary living standard.

Lastly, the introduction of a pension scheme must also be accompanied by a survivors' scheme, or it will not be able to protect the risk of the early death of a



pensioner because many pensioners might still have their dependants (generally spouses). Normally the survivor's pension is not necessarily as high as a full-rate pension. 60% of a full-rate pension might be adequate.

3) Another approach to improve the existing systems is to extend the coverage of insured persons. Though the improvement in this aspect does not directly indicate in Table 2.4, there is a great contribution to improve the criterion of 'administrative efficiency', because the extension of coverage will be helpful to achieve the principle of 'the minimum scale of economy'. Furthermore, a wider coverage would be also good for the improvement of the principle of 'income redistribution' or 'risk pooling'. This would be good for both adequacy and equity in some degree. As the coverage of GEI is restricted to only government employees and that of MI is restricted to only military servants, this discussion will focus only on LI. By the title, the coverage of LI should include all people in the labour force. At least it should include all employed persons who are in the labour force. In fact it is not the case. Firstly, all employed persons who are employed by a firm employing less than 5 persons are not compulsorily included in this system. Its reason is that the administrative cost will be too high if the system includes those small business units. Especially, the cost of the contribution collection will be very high.

Secondly, both scholars, officials and legislators think that employers, even the self-employed, are well-off enough to provide their own provision for their old age. Government does not need to interfere with them. They also think that there will be a reverse distribution from the poor to the rich if the system includes comparatively well-off employers. So not only all employers but most self-employed are excluded from the scheme. Actually the distribution of income is quite different between the labour market and the social insurance system. In the labour market, the distribution of income is closely related to one's effort and quality of employment; but in the social insurance system, the distribution of benefits, both in cash and in kind, is mainly related to the occurrence of contingencies or one's misfortune. Normally, as

effort should be encouraged positively and misfortune should be relieved mutually, so unless we can prove that the contingency risk of employers is higher than employees, we cannot conclude that there is a reverse distribution in the social insurance system. Therefore, the exclusion of employers and the self-employed is un-justified.

On the other hand, nowadays both scholars and government officers also advocate that the long-term policy of our country should be to establish a universal social insurance scheme. But if there is any exclusion of specified groups of people, it will never be possible to be universal. So the reason to exclude employers and self-employed and the reason to advocate a universal insurance scheme are explicitly contradictory. Since there is no evidence to prove that the contingency risk of employers is certainly higher than employees, there is no reason to exclude employers and the self-employed from LI. From 1985 on, since the self-employed such as farmers were allowed to join LI, there is no reason to reject the self-employed in other industries. Finally, if we have no reason to exclude the self-employed, we also have no reason to exclude small employers because there is not much difference between them. As we have mentioned before, 98% of enterprises in Taiwan are of medium and small scale, the number of both enterprises and employers is very large, so if the coverage of LI can be extended from employees to the self-employed, and then from the self-employed to small employers, then the coverage will be greatly enlarged.

Thirdly, because there is a legislation of minimum wage in Taiwan, so there is no problem of exclusion due to low pay. Nevertheless, there is a great difficulty in including unpaid domestic (family) workers. Not only is the cost of the contribution collection very high, but also the ability to pay the contribution cannot be guaranteed. The possibility of them joining an insurance scheme is hardly mentioned or discussed. However, in theory it could be already beyond the capacity of social insurance to deal with this group of people. For them, an all-universal allowance could be the better provision.

4) In this case the meaning of 'administrative efficiency' is the same as 'administrative simplicity' and 'administrative economy'. As mentioned in chapter 2, there are two principles which can be applied to achieve this objective, ie, 'the minimum scale of economy' and 'the division of labour'. We will discuss this objective or criterion based on these two principles. By 1986 there were about 12 acts of social insurance in Taiwan. They are:

1. Government Employees' Insurance (GEI, 1958)
2. Retired Government Employees' Insurance (RGEI, 1964)
3. Insurance for Teaching and Administrative Staff of Private Schools (ITASPS, 1980)
4. Insurance for Retired Teaching and Administrative Staff of Private Schools (IRTASPS, 1984)
5. Health Insurance for Government Employees' Dependents (HIGED, 1982)
6. Health Insurance for Retired Government Employees (HIRGE, 1985)
7. Health Insurance for Spouses of Retired Government Employees (HISRGE, 1985)
8. Health Insurance for Retired Teaching and Administrative Staff of Private Schools (HIRTASPS, 1986)
9. Health Insurance for Spouses of Retired Teaching and Administrative Staff of Private Schools (HISRTASPS, 1986)
10. Labour Insurance (LI, 1950)
11. Health Insurance for Farmers (HIF, 1985)
12. Military Insurance (MI, 1953)

The schemes NOs 2-9 are eight subordinate schemes administered by GEI and NO 11 is administered by LI. So there are only three insurers in Taiwan. However, the contingencies covered by these three insurers are quite similar. As Taiwan is not a very large political unit, even if all existing insured persons are included into one insured group, the total number would only be about 5.8 million persons in 1986. It is not larger than the population of Hong Kong. Compared to the total population of

Taiwan, this figure is not very large. In social insurance if the risk of contingencies is to be pooled, then not only must its coverage be compulsory but also its number of insured persons must be reasonably large. But the operation of social insurance in Taiwan contradicts both these two requirements. Firstly, the limited number of insured persons are divided into three separate systems so the numbers of each insurance are much less than the total number. Secondly, except NOs 3 and 5, all minor schemes in GEI are optional, not compulsory. They are no more than a mix of social welfare and commercial insurance, not a typical social insurance. All these facts demonstrate that the conditions of existing social insurance schemes are contradictory with the first principle, 'the minimum scale of economy'.

As for the second principle, 'the division of labour' or 'the division of administration', there are also many problems. At first, the existing social insurance systems in Taiwan, both GEI and LI, provide benefits both in cash and in kind. The character of these two types of benefits are so different, each insurance has to divide its staff into at least two groups to manage the different types of benefits. From the point of the whole society, it is a waste to employ so many groups of staff to undertake a certain small amount of work. If they had been integrated as a unified single system, less workers would be required. So administration costs also could be less. Moreover, 'the division of labour' will not reduce the number of insured persons in existing systems because the insured persons of these two types of benefits are the same in LI and GEI, nor increase the number of staff because there are already two groups of staff in each system to manage these two different types of benefits. So this second principle does not contradict with the first one, 'the minimum scale of economy'.

Moreover, only after the division of benefits in cash and benefits in kind is carried out, then health services can be provided for the retired under a newly established universal health insurance which will include all groups of people, because, under the existing comprehensive insurance system, there is really no legal status for the retired

to join LI only for health service at all. However, it is also financially impractical to establish a new independent health insurance for only the retired due to its extremely high costs. Only a universal health insurance scheme can solve this problem and avoid many abuses from non-insured persons. Of course, we still have to face the problem of exclusion caused by the inability to contribute.

In social insurance another way to reduce waste is to prevent the abuse of the systems. As the benefits of social insurance are certainly contingencies-related, an insured person can abuse the system only through pretending to commit a contingency. Generally the incidence of any contingency should be involuntary. Only contingencies which can be made to occur on purpose can be abused. Checking the contingencies of social insurance, maternity, disability, old age and death are very definite. It is not easy nor is it desirable for people to commit such contingencies. So there will seldom be abuse with these contingencies. Only the contingencies of unemployment and sickness can be made to happen voluntarily or happen involuntarily. So mainly these two contingencies are likely to be abused.

However, for these two contingencies, in many western welfare states such as Britain, because their retirement ages are generally identical to their conventional definition of old age, so the old age pensioners are not entitled to unemployment benefit and sickness benefit any more even if they are in employment. But in Taiwan because its employees (both in GEI and LI in occupational schemes) are allowed to retire voluntarily after 25 year's service, so many retirees may undertake a new job and take part in a new social security scheme without losing their former retirement benefits. So these two contingencies need to be discussed in some length in Taiwan.

Firstly, we discuss the contingency of unemployment. Nowadays employment is still an important source of income for many elderly people. Due to the progress of technology and the rising of productivity, unemployment has been an inevitable event in modern industrialised societies for all working people, not only for the elderly. So

involuntary unemployment is really a misfortune, but voluntary unemployment could be through personal shortcomings or moral failings. For this reason it has been a general principle that only involuntarily unemployed persons are entitled to unemployment benefits. But in the case of a high rate of and long term of unemployment, for example, like in Britain nowadays, the distinction between voluntary unemployment and involuntary unemployment has become meaningless because all unemployed persons may declare that they are involuntary so. However, the government cannot create so many jobs to place them.

When unemployment is a prolonged situation, the existing assistance which aims at the consumption side will be unable to tackle this problem successfully. It could be an effective way if the assistance can be transferred from the consumption side to the investment side, ie, to require all long-term unemployed persons to receive occupational training as Beveridge recommended and pay them benefits equal to a very high percentage of the average wage of the industries that they intend to participate in. The training centres or schools shall give them strict and intensive training in high technology as long as they need it. But if the achievement of their training is not satisfactory, they will be dismissed from the centres or schools. By this way, the state might spend several times' more than normal unemployment expenditure in the short term, but both the state and unemployed persons will benefit in the long term. Because whenever the trained unemployed persons are re-employed again, they will be high income earners, so they will be able to pay more tax and contributions to the state. It is also true that technology in a modern industrialised society is more advanced than before that not only is its training cost very high but also more difficult for many old or low educated unemployed persons to learn. If the training needs more than one year to complete, then there will be another risk that the demand of the technology could have changed when the training is finished.

Secondly, as for sickness, it is more complicated than unemployment. Professor Kaim-Caudle has given a good description about sickness:



Sickness is not a state which can be easily defined or measured. Neither its beginning nor its end can be precisely determined. There is a continuum with perfect health at one end and excruciatingly painful and completely disabling sickness at the other. The great majority of the population are at any one time somewhat between these two extremes. Moreover, the physical and mental state which individuals accept as normal vary widely and to some extent influence the type of work they are willing and able to undertake. Most people continue working even if their state of health falls somewhat below what is their norm, and everybody has to give up working at some level of ill-health, but there is an indeterminate area between these two states (1973: 104).

Due to the nature of sickness, abuse could happen in case of slight illness or even malingering. For the elderly, they are generally weaker and more unhealthy than the younger people, so it is more difficult to judge if they are malingering or not. In Taiwan the number of old employed persons is very small (most working old people are self-employed), the chance for them to abuse the social insurance system to claim sickness benefits is very rare. Furthermore, because there is no universal health insurance for the majority of old people yet, so there is also no chance for them to abuse the health insurance system either.

#### **9.6. Social Assistance**

As mentioned in section 3, compared to social insurance and universal allowance, in benefit aspect social assistance can achieve the first rank in the criteria of 'vertical equity' and 'outcome horizontal equity'. In theory it will be able to achieve the additional criteria of 'means horizontal equity', 'economic efficiency' and 'administrative efficiency' in financing aspect if the scheme is financed by flat rate tax and to achieve the criteria of 'vertical equity', 'outcome horizontal equity' and 'adequacy' in financing aspect if the scheme is financed by progressive or proportional tax. But in practice only the latter can be achieved because in most cases social assistance is financed by progressive tax.

In Taiwan social assistance includes living assistance, medical subsidy, personal accident assistance and calamity assistance. They are the provisions for all people, not



only for the elderly. As described in chapter 7, the provisions of social assistance are not very satisfactory. Compared to other provisions of social security, the most outstanding element of social assistance is its means-test. We also know that the most undesirable side effects of the means-test are disincentive and stigma. In theory there is no way to avoid means-test to attain access to the benefits of social assistance, or it is not social assistance any more. However, the effects of disincentive and stigma can be minimised by using a most generous means test or setting a minimum wage, Australia and New Zealand are good examples of this. But this policy can be feasible only in relatively affluent countries with very small populations. For countries with large populations, it will be extremely expensive.

Due to the effect of stigmatising in social assistance, no matter how little it is, it certainly will make this provision less popular in the field of social security. For this reason, it will be quite easy to encourage people to utilise this provision as the last resort. The available effective way to strengthen this policy is to keep the level of assistance not more than the levels of all other benefits in the field of social security. When the level of social assistance is the lowest one in the field of social security, people will consider this provision as the last resort.

The main shortcoming of social assistance is that both its means test and benefit are too severe. So the direction of its reform is to reduce its degree of severity. There are at least two ways which can be applied to reduce its severity. Firstly, the severity of the means-test can be reduced by phasing out the zero income test. As described in chapter 7, the criteria of means-test is the official subsistence level which is referring to the actual subsistence level but not certainly equal to it. Because in theory the actual subsistence level should be 40% of average consumption expenditure in Taipei City or 1/3 of average family income per head in Taiwan Province and Kaohsiung City, so they should be NT\$2,437 in Taipei City, NT\$2,108 in Kaohsiung City and NT\$1,718 in Taiwan Province. But in practice the official subsistence level was set at NT\$2,100 in Taipei City, NT\$2,000 in Kaohsiung City and

NT\$1,950 in Taiwan Province. Only those families with a gross income of not more than this official subsistence level can qualify as families in poverty. They are at least entitled to free medical care and some irregular cash assistance. However, only those families without any income at all, ie, those families who can pass the zero income test, are entitled to regular cash assistance. Furthermore, the actual assistance level is prescribed in a level much lower even than the official subsistence level. They are NT\$1,800 for head of household and only NT\$1,000 for each subsequent members in Taipei City, NT\$1,200 for all persons in a qualified household in Kaohsiung City and Taiwan Province. So the actual assistance level is only about 60% of the official subsistence level.

Explicitly, under this zero income test, there will be great frustration for those qualified poor families which have just only a little bit of income. If their income is less than 60% of the actual assistance level, then their income will be less than those who originally have no income after they receive an assistance. So the most urgent reform is to phase out this zero income test and give assistance to all people whose income is less than official or actual subsistence level in order to guarantee them an income floor at the level of official or actual subsistence income.

Secondly, the other way to reform social assistance is to improve the level of actual assistance. Although it is not an adequate way to increase the assistance level unconditionally, it would be very safe that, as long as the assistance level is not higher than the level of other provisions of social security, any level of increase should be allowable. The level of social assistance can be increased through several steps. At first, it is to increase the actual assistance level to the official subsistence level. After this objective has been achieved, the next step is to match the official subsistence level to the actual subsistence level if it is higher. And, lastly, it is to improve the actual subsistence level by increasing the percentage from 40% to 50% or even 60% of average consumption expenditure.

Thirdly, however, no matter how favourable the assistance benefit is, it cannot avoid being stigmatised by its test. This is quite in contradiction of the tradition of Chinese culture. There is a high value of respect for or even honour for the elderly in Chinese culture. In a culture of respecting old people, social assistance with a stigmatising effect is particularly not an adequate provision for the elderly in Chinese society. Before an universal old age benefit can be available, it will be acceptable to offer the elderly who are over a given age, eg, 70, a better or preferential rate of assistance. There will be no great financial difficulty for prosperous Taiwan, because her population is still very young.

Besides benefits in cash, benefits in kind are also very important in the field of social assistance. The first important type of benefit in kind is medical care (mainly inpatient service), the other one is homes or houses for orphans and old people. All qualified poor people are entitled to free medical care, but not certainly almshouses or old people's homes. For orphans, they are definitely entitled to orphans' homes without ambiguity. But for the elderly, only those who can pass both means test and children test are allowed to enter an almshouse or old people's home. That is, only old poor people without children can possibly pass those two tests and move into old people's homes. So we will focus our discussion of benefit in kind on only old people's homes.

Generally, even in old people's homes in big cities such as Taipei City, we find conditions are not satisfactory. According to Table 7.4, except veterans' homes, the total capacity of old people's homes is only about 10.3 thousand places. According to the estimation in chapter 6, the number of old single people aged 65 and over was about 38.1 to 43.7 thousand in 1984. If a half of them were ordinary single old people, then their number would be about 19 to 22 thousand persons. If all ordinary single old people were qualified to move into those homes, those places would be far behind the needs. Actually only 75.9% of places were occupied in 1984. The low rate of utilisation of old people's homes demonstrates not only that the tests are too strict

but their conditions are not satisfactory.

As long as old people's homes are still a part of social assistance, its side effect is certainly the same as that of cash benefit. But, the conditions of benefit in kind are more severe. In cash benefit, only means test is applied; but in the in-kind benefit of 'old people's home', apart from means test, a children test is also applied in order to narrow the coverage. So the reform of in-kind 'home' benefit could mainly emphasize how to enlarge its coverage and to improve the standard of old people's homes. As the entrance into old people's home is subject to two or three tests: means test, children test and/or age test. So the extension of coverage can also be made through these three paths.

Firstly, as the means test for the entitlement to old people's home is restricted to only those who are entitled to regular cash assistance, ie, the first group of poor persons or families without any income, so the direction to extend its coverage is from the first group to the second group which with income less than 2/3 of official subsistence level, and then from the second group to the third group with income less than official subsistence level. Secondly, as for the children test, elderly people with children are officially excluded from old people's homes. Only single persons and the married persons who have no child are possibly entitled to old people's homes. So the direction to extend its coverage is to include the old parents whose children are unable to support them owing to disability, illness, unemployment and even low income. Of course, those whose children are permanently and totally disabled should have the first priority. Thirdly, the criteria of age test is normally 60 years old. But because in one's calendar 'old age' is not certainly matched with one's biological or psychological 'old age', many people might have been disabled or 'old' well before they are 60 years, so there must be some special provisions allowing a lowering of this age.

From much evidence, the social assistance provision of old people's homes in

Taiwan has many problems and is far from satisfactory. Firstly, for the sake of economy, the size of old people's homes are always very large. For example, the number of residents of veteran homes are always several thousand, even the number of the ordinary public old people's homes amounts to several hundred. In turn the large scale of old people's homes certainly means that they have to be established in a new developing area and are far from their residents' old community. This sudden change of living environment also involves a change in their social life. It is not easy for old people to adjust themselves to a new life. Many old single persons refused to move into old people's home though they were qualified. Therefore, the policies to tackle these problems, besides improving their facilities, was to reduce the scale of homes and to locate them within the original community. Only in small scale old people's homes can the administration or management easily meet the individual needs of the old; and only if an old people's home is located in the original community, is it easy for old people to adjust their lives.

Lastly, as we want to improve the assistance benefit both in cash and in kind simultaneously, we must have another policy to keep the pace of these two benefits parallel and harmonious. It will be best if we can achieve a state of indifference between benefit in cash and benefit in kind. That is, we do not provide any incentive to encourage old people to opt for benefit in cash or benefit in kind. The option should be totally based on the real interest of the elderly.

The utilisation rate of old people's homes was only about 76% in 1984, ie, only 76% of the places of old people's homes were occupied. This low occupation rate demonstrated that the means-test should be more generous by allowing its applicants to have a certain amount of property or regular income. A more generous means-test might let more applicants be qualified to move into old people's homes. Under this circumstance the government would also have to invest more and spend more in the short term. But in the long-term this generosity will benefit both old people's homes and even government in many aspects: 1) the quality of life of old people's homes will

be improved by having more well-off residents; 2) as well-off single persons do not have legal heirs for their resources, the old people's home they live in should have the first priority to be the heir, so their resources will be a big source of revenue for old people's homes; this would not only improve the financial situation of old people's homes but also relieve the financial burden on government; 3) as there is a close relationship between education attachment and earning ability, better-off residents certainly means better-educated residents. In theory the demands of better-educated residents will initiate a new ideal for old people's homes.

### 9.7. Occupational Schemes

Theoretically, in this thesis the traditional occupational schemes are classified as secondary social insurance, so the options of criteria (which are) applied to (primary) social insurance can also be applied to occupational schemes. But, practically, in Taiwan occupational schemes are some kind of mixture of social insurance, sub-universal schemes and provident fund, they also have the same function and limitation. generally, there are not many problems in the public occupational schemes because they have not only a general revenue as their source of financing but an option of lump sum and pension in types of payments. But for the private ones, they will confront many problems because their financing is based on the contributions of their thousands of employers and their paying ability is not always stable and guaranteed. So the discussion of the reform of occupational schemes will focus on only private ones.

There are several problems in private occupational schemes. Firstly, the schemes are contributed to only by employers, so the paying ability of employers is the vital factor of the schemes. As mentioned in chapter 5, 98% of enterprises in Taiwan are of medium and small scale. Due to the huge number of enterprises, its greatest merit for the economy is that its efficiency will be very high because of the strong competition. On the other hand, its most serious weakness is that the life-span of each enterprise will be very unstable. No enterprise is able to guarantee to provide a long-term



provision for its employees. And it is not only unreasonable but impossible to request individual enterprises to provide such provisions. That is beyond the ability of employers unless the employer is government. This is the reason why there were occupational pension schemes for only government employees and military servants in the first stage. The Labour Standard Law which requires employers to provide occupational payments formally came into force in 1985 though its promulgation was in 1984. Because the contributions of occupational schemes are certainly the costs of productions, so if the level of occupational benefits is very high, either in lump sum or in pension, it finally will greatly reduce the profits of employers and will be a disincentive for employers to invest in the country. They will invest abroad where the costs are lower because the foreign exchange nowadays is normally free. That is just like a Chinese proverb, "to kill the hen to take the eggs". In order to overcome these difficulties, not only must the contribution rate be reasonably low, but a new administration, ie, an independent central reserve fund, must be set up. All employers' contributions are paid to this reserve, and future benefits are also guaranteed by this reserve. If so, the schemes in fact are no more than a provident fund or a full-funded social insurance. Then, the shortcomings of a provident fund or funded social insurance such as the erosion of inflation and sometimes the inefficiency in the investment of the huge fund cannot be avoided.

In theory those newly established private occupational schemes have the same coverage as LI. But, in practice, at the inception only the enterprises of comparatively large scale are required to establish their occupational provisions, so their coverage is much smaller than that of LI. Although it is welcome to have a new scheme to provide one more source of income for the LI retirees in the future, however, it is an administrative waste to establish another new separate agency to administer this similar scheme. It could be better just to require employers to pay their occupational contributions to the existing social insurance scheme, LI. And then require LI to fully-fund these contributions and to increase the same amount of old age payments



for employees. It will be more simple, safer and even more efficient than to trust another new agency.

As 'occupational scheme' is a new title of old age provision, it could be a radical reform to adopt a new non-insurance principle to create a new measure to provide a new form of old age benefits by this title. This new scheme could be and had better be based on economic principles. Generally there are four economic productive factors: land, capital, labour and management. All economic income should be earned through these four sources. In industrialised countries, most employees earn their income through 'labour' when they are of working age until they are old and retired. At present, because all provisions of social security are based on only one productive factor, 'labour', so their policy is to request employers to provide retirement payments to their retirees based on the hypotheses of 'deferred wage' and 'human capital depreciation'. This will cause a difficulty in estimating labour cost in economic activities. So we suggest a new policy to establish a new old age provision based on the other economic productive factors such as 'capital' for occupational schemes.

Under such a new policy, there are several ways in which one might achieve this aim: 1)all employers with capital up to a given level are required to sell a certain percentage of their company's share or stock annually to any employees with union membership. In order to encourage competition, employees can be allowed to buy the stock from other companies if they think those companies are gainful; or 2)those employers may be required to offer a given amount of their own companies' stock to their employees annually as part of their wages or bonus up to a given level, and no option for employees; or 3)they (employers) may be required to provide a given higher amount of stock when their employees retire. The choice of these three options should be up to employers. According to a report in a newspaper (CDN), in Taiwan more than 70% of capital of a very successful high technology computer enterprise was distributed to its own employees. Unfortunately, the percentage of employees who are the share-holders is not known. However, this evidence demonstrates that

this proposal is feasible. Further research on this issue would be worthwhile.

Explicitly, the effects of these three measures are quite different. For the first measure, it is highly competitive for both employers and employees. Because the current value of stock is clearly related to the efficiency or profitability of its company, so this measure will give a great advantage to the stock-holders with economic and commercial knowledge, but will be a great risk for those without. The merit of the second measure is that it can improve the solidarity or industrial relationship between employers and employees, but its shortcomings is that the labour mobility will be greatly reduced. The third measure is in fact similar to existing lump sum cash payments, so does its shortcoming. We require employers to pay lump sum payments in form of stock in order to avoid the risk of inflation. But it will be a great disadvantage for those who always change their jobs. That is, there is also an effect to deter labour mobility.

Although the management of stock is still based on the existing principle of stock market, in order to guarantee stock as a source of old age provision, we may legally require that all employees must join a trade union based on their stock-holding record and their amount should be proportional to their length of employment, or a certificate from their employers proving that they will have a legal amount of stock when they retire is required. Straightforwardly, the aim of this policy is to help people to transfer their source of income from 'labour' to 'capital' before they retire. Generally, there are many merits in this new policy. Firstly, because this device does not violate the principles of economy, so it will not cause any side effect such as disincentive to work or to save. Secondly, as the value of stock will appreciate when the business or economy is growing, so the problem of inflation of funded scheme and the uncertainty of financial burden of pay-as-you-go scheme can be avoided in a stock-distribution scheme. Thirdly, for employees there is a greater degree of freedom (or more options of choice) in a stock-distribution scheme than in a traditional occupational scheme. Fourthly, as many employees may also hold the shares of their

employer's company, so an employee will be actually at the same time an employer. That is, a member of a company will be both an employee and an employer. This will not only be a great incentive to strengthen the solidarity of a company, but many unnecessary industrial disputes could be avoided, and also provide a powerful base to break through the family-link of old enterprises and to extend the existing small scale enterprises into medium and even large enterprises, so the principle of the minimum scale of economy could easily be achieved. In this case, the most important thing that government has to do is to prevent the stock market from being a speculative business.

Lastly, people may still argue that stock-distribution scheme is not a safe way to protect old age because stock might devalue in event of an economic recession or the failure of individual enterprises. This could very well be the case. But there is no need to fear this because, firstly, compared to the existing situation, this new occupational scheme is only an extra or additional provision for our multiple old age income sources; and secondly, we reasonably expect that the risk of speculation will be reduced to the least level after the stock holdings are more equally distributed to the public.

### **9.8. Universal Schemes**

As we have defined them in chapter 2, a 'universal scheme' is the kind of provision with no coverage restriction and includes all residents of a country. Its theoretical form is 'basic income' or 'social dividend'. As for the 'sub-universal scheme', it is a kind of provision from which benefits are equally paid to certain groups of residents based on non-pecuniary tests such as age which will mature or phase out automatically or certain status which will be fixed for long term or even forever. Once the targeted group is fixed, then the prefix 'sub' can be omitted. And this benefit can be entitled as 'universal child benefit' or 'universal old age benefit' because its coverage has been indicated with 'child' or 'old age'.

As mentioned in section 3, in the field of social security, flat-rate universal allowance can achieve the objectives of 'means horizontal equity', 'economic efficiency' and 'administrative efficiency' in benefits aspect. Furthermore, in financing aspect the additional objectives of 'vertical equity', 'outcome horizontal equity' and 'adequacy' will be achieved if the scheme is financed by progressive or proportional tax; or the additional objectives of 'means horizontal equity', 'economic efficiency' and 'administrative efficiency' will be achieved if the scheme is financed by flat rate tax. When the scheme is financed by flat rate tax, the function to achieve the objectives of 'means horizontal equity', 'economic efficiency' and 'administrative efficiency' will be distinctively significant because their first rank can be achieve in both benefit and financing aspects. But within the field of universal allowance, all-universal benefits will perform better than sub-universal ones in achieving the objectives of 'means horizontal equity', 'economic efficiency' and 'administrative efficiency', but the latter can perform better in achieving the objectives of 'vertical equity' and 'outcome horizontal equity'.

In Taiwan there are only sub-universal schemes providing services in kind. They are sub-universal employment services for all the labour force, sub-universal health service for veterans, and sub-universal health service for military servants and their dependants. Obviously, only health services have a special close relationship with old people. Therefore, the discussion of existing sub-universal schemes in this section will focus mainly on this service. However, some new sub-universal proposals for the elderly raised in the section of social assistance will also be discussed at some length.

#### **9.8.1. Existing Sub-Universal Services**

In the field of health service, although there is a co-existing system of western medicine and traditional Chinese herb medicine in Taiwan, the services in these sub-universal schemes consist mainly of the western one. The main characteristic of the health service system in Taiwan is a near-perfect competition on both the supply

side and demand side. Physicians can establish their own clinics or hospitals freely and have clinical freedom to decide on the diagnosis and therapy they consider appropriate for their patients. On the other side, the patients also have perfect freedom in the choice of the clinics or hospitals that they wish to attend. Theoretically, the merits of this system is that there will be strong competition among suppliers and they will be forced to supply the best service at the lowest price or the patients will not come to visit. However, this hypothesis is true only if all medical expenditure must be paid by patients because the development of high-priced sophisticated medical services will be checked by the payment ability of patients.

But after the introduction of health insurance and sub-universal schemes in the health service, the price of the health service is free at least at the point of consumption, this offer certainly will induce an over-demand on high standard health services because there is no price to check the demand. Furthermore, this offer will cause not only an unbalanced development of the health service but also many other side effects. Firstly, any free health service in a free medical market without any restrictions or ceiling will encourage the multiplication of services and the acquisition of technologically advanced equipment. On one hand, patients like to receive the best possible treatment and an associate quality of care with modern elaborate facilities and the willingness of doctors to undertake many tests. From the macro point of view, the free choice of patients will lead not only to a waste by taking the same medical history and tests several times in different hospitals but also an abuse by visiting expensive large-scale hospitals for a very minor disease. On the other hand, physicians also have a professional interest, occasionally a financial interest, to do the best for their patients and therefore favour elaborate and expensive over basic and economical procedures and drugs if they realise that their patients need not pay for them. Therefore, the cost of a free health service under social insurance or sub-universal service will be extremely inflationary (Kaim-Caudle and Chin, 29-31). The figures provided in chapter 8 (see Table 8.16) are good evidence of this.

As the health service for veterans is provided only by 13 veteran hospitals and those for military servants and their dependants are provided only by military hospitals, due to the limitation of the number of hospitals, its main problem is that it is very inconvenient for many beneficiaries to go to the hospitals. Much worse, many patients like to rush to visit the two high standard general hospitals in Taipei City. Their queues are terribly long. On the contrary, other local hospitals are under-utilised.

Furthermore, the number of beneficiaries of the sub-universal health service is not only quite small but also scattered over the whole island, so it is not an economical way to set up more clinics or hospitals to fulfil the object of convenience. The fact that many veterans and the dependants of military servants prefer to visit general hospitals in Taipei City rather than visit local hospitals indicates that the quality of local clinics or hospitals are far behind the general hospitals. So if there is no strict referral system within the medical service network, every effort will be in vain. In the field of sub-universal schemes, the medical service network could be divided into three levels according to their equipment, facilities and personnel, i.e., central general hospitals, local hospitals and local clinics. Except in the case of an emergency, all patients could visit only one chosen clinic where he had established a medical history, and no one could visit local hospitals or general hospitals without reference from the doctor of his registered clinic unless they paid the expenditure by themselves.

At present the number of old people in Taiwan is only about 5%. Compared to ageing countries, this figure is rather small. It is not a great difficulty to extend the existing coverage of beneficiaries to include all old people. That is, to reform the existing sub-universal scheme to become more universal. Nowadays, as all residents aged 65 years and over in Taipei City have been entitled to free medical services at the local community clinics and half price hospitalisation in city hospitals, so the sub-universal health service for old people is financially feasible in Taiwan. The direction to extend the coverage of the sub-universal health service could be from the point of area or age. Firstly, if the extension is based on age, then its direction is from



70 to 68 or 65 and finally to 60 in order to include all normal retirees from LI. Secondly, if the extension is based on area, then its direction is from Taipei City to the whole Taiwan area. Of course, the second one is less feasible because it might cause a great immigrant flow of sick people between areas. Through this process, a sub-universal scheme for all old people can be achieved in the near future.

After this sub-universal health scheme for the elderly is achieved, social insurance will be responsible for only the health service of the working population if comprehensive insurance or health insurance is still applied. However, as insurance is always a strong incentive to encourage a high cost/price medical service, so it is not even an economical way to provide health services for only the working population, so a universal health service scheme may be the most economical way or at least a more economical way. According to Article 157 of the Constitution, it is our national policy to establish a universal or public health service for the people.

Nevertheless, health service is not the only item of benefits in kind. Apart from health service, the other important service in kind is housing (or home) service. For old people in Taiwan, the most important one is the old people's home. As we have mentioned in a previous section, it is very inadequate to provide this kind of service through the method of social assistance in Taiwan and all other Chinese societies. So we suggest that a better way to provide this service should be through a sub-universal scheme. That is, the better reform for old people's homes is to transfer them from the social assistance system to a sub-universal system. By definition, sub-universal old people's homes should allow all old people aged 65 years and over to move in. But the confiner "sub" will bring us great elasticity. At the very inception of the scheme, we may define the coverage to include only single old people and old people without children. It will not contradict the name of the scheme. As for married old people who have children, in the principle of equality and equity, there is no reason to exclude them forever. The matter we would be concerned about is that the universal 'home' scheme would have the side effect or alienating the intimate



relationship between parents and children owing to the reduction of interaction and communication. In principle a universal old age scheme should cover all old people, but in order to provide an incentive to encourage adult children to live with their old parents, in particular when their old parents are retired, it might be a better policy to offer the children a preferential 'tax deduction' or 'tax credit' if they are living with their old parents. This will be a strong incentive to encourage old parents and their children to live together.

Apart from a sub-universal service in kind for the elderly, we also want to aim for a sub-universal old age cash benefit, or more precisely, a universal old age pension. As a small Chinese society, Hong Kong, is able to provide such universal pensions to her old people aged 70 years and over, there will be no financial difficulty for Taiwan to provide the same pension under the same condition in the incipient stage. Depending on the financing ability, our further aim is to provide a universal old age pension to all old people over 65 years. Whenever a universal old age pension can be provided for all old people aged 65 and over under the existing tax revenue system, its total estimated pensions expenditure will be the same as the pay-as-you-go social insurance system mentioned in section 5 in this chapter. However, the real pensions expenditure will be dependent on the ratio of tax-payers to pensioners and the ratio of pensions to net earnings (ie, replacement rate). Comparatively, taxing ability is the most crucial factor in deciding the pension level and the total pensions expenditure of a universal scheme.

### **9.8.2 Towards An All-Universal Scheme**

As for our long-term aim or final aim, it is to establish a real universal scheme, ie, all-universal allowance, which is generally entitled as 'basic income' or 'social dividend' for all citizens as Basic Income Research Group (BIRG) (1984) and Deacon and Bradshaw (182-183) have described. In theory the merit of the universal scheme is that it can overcome the shortcomings of both social assistance and social insurance and its own vital weaknesses are that, firstly, it will be too expensive to be

implemented if its benefit level is reasonably high to meet primary or even secondary needs and, secondly, its flat rate benefit, no matter however high, may not be able to meet the special needs. But in practice this is not certain to be the case. For many high per capita income western industrialised countries, it is not that they are not rich enough to implement such a universal scheme, in fact it is their financing method which is depending on only one productive factor, labour, fails to raise sufficient income to finance such a scheme.

This phenomenon can be fully illustrated in Figure 2.4. The crucial problem for tax-financed social dividend is that its tax rate will be extremely high. Conservatively estimated, it could be at least more than 50% for benefit level as high as official social assistance benefit. The higher the basic income, the higher the income tax. As mentioned in chapter 2, it is also an administrative waste to finance an all-universal allowance by taxes, because, those who have to pay tax more than the amount of benefit, the benefit is in fact no different from a kind of tax credit or tax exempt. For them, the payment of benefit is actually a kind of administrative waste.

In order to avoid the strong disincentive effect from a high tax rate and unnecessary administrative waste, in theory, the all-universal allowance should not be financed by only tax revenue any more. But, unfortunately, the problem is that, apart from this financial source, labour, and its corresponding fiscal method, all advanced welfare states including the UK cannot find another workable method to raise sufficient revenue to finance the scheme, this the reason why the all-universal allowance schemes fail to be in force. For this reason, the author has looked for other types of financing sources such as economic production rather than fiscal taxation to finance the all-universal scheme in Taiwan. Of course, this type of financing might not be feasible in other countries.

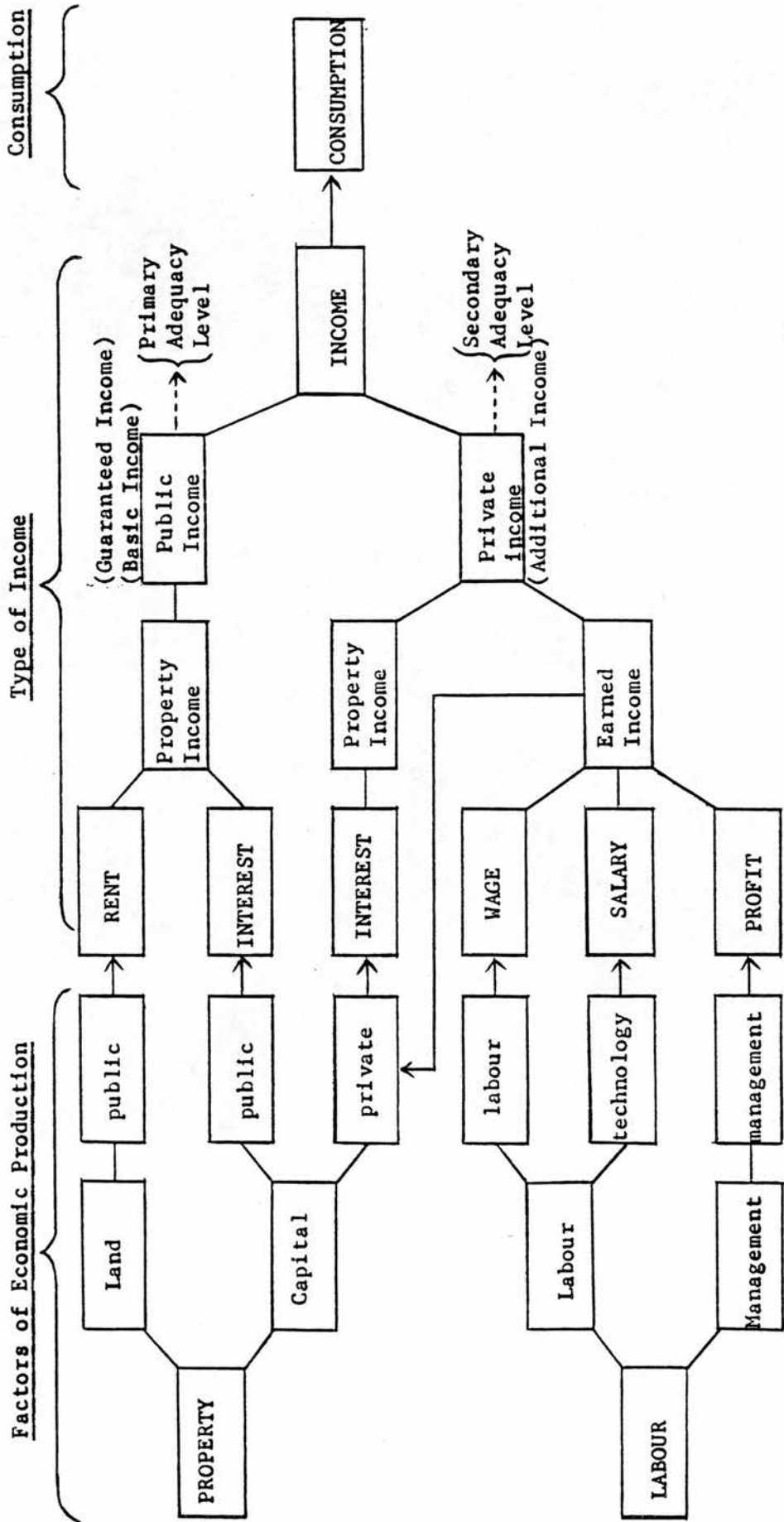
As we have mentioned in a previous section, the basic economic productive factors are generally classified as four: land, capital, labour and management (or

entrepreneurship). All economic income is earned through these four sources. In western welfare states, financing of social security is mainly based on the factor of labour and using only the fiscal method, tax, to raise their revenue. Explicitly it is very difficult for this policy to raise sufficient revenue unless it disregards its side effect of disincentive and substitution.

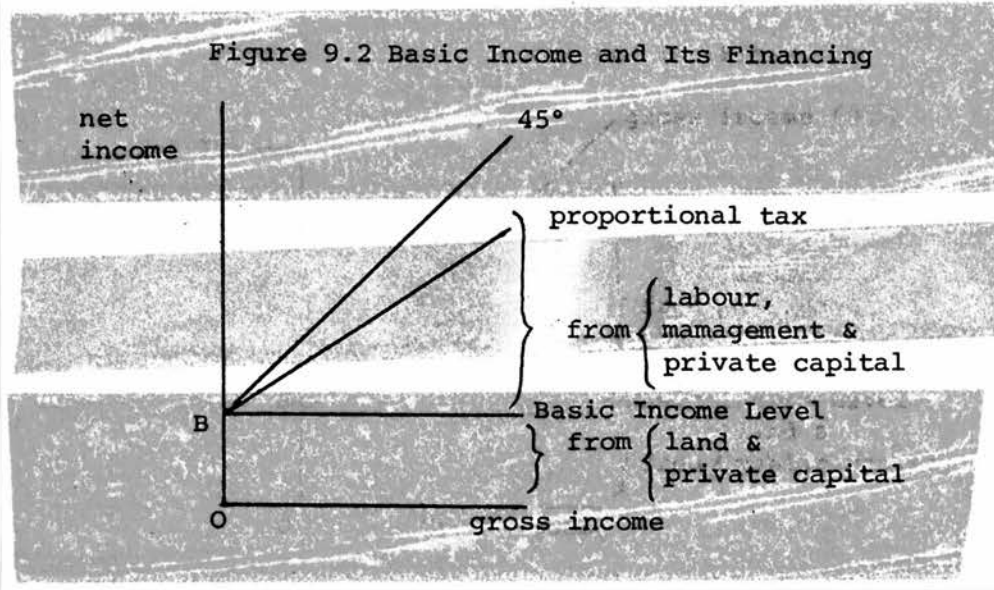
For this financing issue, in his economic policy in his third ism of *Tripeoplism*, Dr. Sun Yat-sen had envisaged a workable plan to tackle this issue seven to nine decades ago although he did not use the same terms, basic income or social dividend. In brief, because his main idea was to guarantee a basic living for all people of the country based on the revenue from land and public enterprises, so his basic policy was in fact no different than to establish a pension provision based on the factors of 'land' and 'capital' rather than 'labour', and also based on an economic method, cost, rather than a fiscal method, tax (see Figure 9.1). Of course, his aim to receive an affluent income from public productive factors, land and capital, can be achieved only if these two factors are managed by the highly efficient professional experts of the quinquartite government (or five-power government) which are established under the *Theory of Separation of Political Power and Administrative Ability* in the second ism of *Tripeoplism*. Therefore, both the second ism and the third ism are the inseparable parts of the precondition to implement an all-universal scheme in Taiwan.

As mentioned before, 98% of enterprises in Taiwan are medium and small scale, it is very difficult to establish an efficient and accurate tax system to tax small business and the self-employed or even for many employers to finance public expenditure, not to mention a basic income scheme. Most tax incidence is on paid employees in medium and large enterprises. Apart from this source of revenue, taxation from employers and employees, there seems to be no other feasible or even theoretical method to finance a basic income. If public income received from land and public capital are sufficient for all public expenditure including basic income, personal income tax could be phased out or merely apply a proportional tax only. This new financing

Figure 9.1 Economic Productive Factors and Income



method will be an effective way to encourage the development of human capital (see Figure 9.2).



As mentioned in chapter 5, since it is possible to raise substantial amounts of money from the factors of land and public capital because both of them are managed by the full-efficient quinquupartite government which are proposed under the secondism of *Tripeoplism*, so it is also possible to solve the financing problem of basic income or social dividend. Therefore, a universal cash benefit is possible in Taiwan in the future. Until that time the existing provisions of social assistance, social insurance and all other minor schemes based on revenue from labour are not necessary to be phased-out under our policy of the multiplicity of income sources. Of course, the function of social assistance may be of much less importance; the provisions of social insurance, including occupational schemes and provident fund, may be considered as one of the sources of secondary income to meet personal special needs.

### 9.9. Feasibility and Implementation

As mentioned in chapter 5, any reform and change in social security can be put into force only if they can be transformed into social legislation through the political process. In theory under *Tripeoplism* and the special provisions of social security in

the Constitution, there is not only not an ideological obstacle to inhibit the betterment of existing provisions of social security, but also an advantage to establish new ones. But, in practice, there are some difficulties in the existing political system.

Firstly, LI is the largest provision of social security in Taiwan, but the LI Bureau itself is only a special agency under the Taiwan Provincial Government. All amendments or reforms raised by LI must be approved by both the Taiwan Provincial Government and the Taiwan Provincial Congress at the first two steps. In the third step, this approved draft of reform must be submitted to the Ministry of Interior of the Executive Yuan. The ministry will make their revision and decision after consulting with the reference groups consisted of the representative from capital, labour and scholars and then submit this revised draft to the cabinet of Executive Yuan which is organised by all ministers of the Yuan. Finally, this draft will be sent to the Legislative Yuan for formal political approval if it can be passed in the cabinet of Executive Yuan. This six-step policy-making procedure for LI reform is really very long. Even if it takes only half a year to finish the procedure in each step, then it will take at least three years to work out a revision or amendment in LI scheme. In fact, it really took such a long time to work through all amendments in the past. Therefore, the direct reform to remove this difficulty is to upgrade the legal status of the LI Bureau as high as a special agency which is equal to a ministry or commission.

Secondly, under the existing systems of LI and GEI, because the level of benefits has no direct relationship with the rate of contributions though this level is calculated based on insured wage and the length of contributions, so the increase of contribution rates will cause the objections from both employers and employees in the Legislative Yuan. This is the reason why the drafts of LI and GEI planning to increase contribution rates were turned down by the Legislative Yuan recently though the annual balance of both schemes are already in the red. This is a serious flaw in both the existing social security system and the political system. There must be a technical reform to establish a direct relationship between benefit level and



contribution rate. Fortunately, in Taiwan this relationship can be fully established based on Dr. Sun's theory of the separation of 'political power' and 'administrative ability' on the affair of social security. As mentioned in chapter 3 and chapter 5, if the political power (ie, the Legislative Yuan) can restricted itself to decide only one side of the equation,  $B = f(T)$ , ( $B$ = benefit,  $T$ = taxation), and the other side is left to the government (ie, the Executive Yuan or the Ministry of Interior), then the balance of this equation will be able to be achieved.

Thirdly, generally, the political party will play a very important role in the reform of social security in a democratic society. In Taiwan this factor is even more important due to the character of the ruling party, Kuomintang or National Party. Basically, since the reform of 1923 the organisational structure of the National Party is of the 'Leninist model' owing to adopting the advice of Soviet political adviser, Michael Borodin, during Dr. Sun's cooperation with Soviet Russia (Tung, 93). By nature the organisational structure of the party is based on the principle of 'democratic centralism', so it will tend to be totalitarian or dictatorial. In the National Party nowadays its leader is elected by the party congress which is a conference of the representatives of party members and by regulation should be held every 4 years. But in fact the interval is always much longer than this. Another function of the party congress is to elect about 150 (recently 180) deputies of *central committee* and to amend the party constitution. The plenum of *central committee* will be convened occasionally every 1 to 2 years. Only about 30 members of the *standing central committee* will have regular conferences every 1 to 2 weeks. By party constitution the highest party power shall belong to party congress, but in practice it is controlled by the 'conference of standing central committee' (CSCC). The crucial problem here is that the candidates of central committee and standing central committee are all nominated by the party leader (only a half of candidates of central committee were open to free competition in the latest party congress). So, finally, the party leader will have absolute power to control the whole party. That is, the party leader will become



the dictator of the party.

Moreover, in the political system all party candidates for the representatives of both central and local congress are nominated by the party, so the party leader can also control the representatives of congress effectively. Under this circumstance, if a bill of social security reform is opposed by the CSCC, there will be no chance to survive; if a bill is neither opposed nor agreed by the CSCC, it will be very difficult to get through the Legislative Yuan; but if a bill is approved by the CSCC, there will be no challenge to its implementation because all party representatives will be mobilised by the party machine to support the bill. So, the support of the ruling party is the crucial force in the political process of all public legislations, not only social legislations.

In Taiwan as the ruling party and its leader have such a strong influence in the policy-making of social legislations, this factor could be either an advantage or a disadvantage in the making of social legislation. The crucial point here is how to guarantee that the decision of the CSCC can really reflect the needs of the people. This objective can be achieved only if members of the *standing central committee* can play their prescribed role independently without any reservation. In the existing circumstances, this condition is not existent. Therefore, a reform of the organisational structure of ruling party is necessary and inevitable. Though this party reform is out of the field of social security, it is a pre-condition of social security reform. In brief the direction of party reform could be as follows: 1)the party leader had better be elected and recalled by the CSCC, not by party congress because there must be another power to balance the power of party leader regularly; 2)the members of the standing central committee had better be elected and recalled by the plenum of central committee, not nominated by the party leader; 3)the deputies of central committee had better be elected and recalled by the congress of the party, no nomination of the party leader is necessary; 4)the representatives of party congress had better be competitively elected from party members, no non-elected

representative should be allowable. Only through this party reform, the public opinion of party members can be reflected in the policy-decision in the CSCC of the party.

#### 9.10. Conclusion

Viewing the structure of population and economy in Taiwan, especially the increasing ageing of the population and the high rate of the labour force employed in secondary and tertiary industries, so it has been very urgent to reform the existing social security provisions in order to provide more valid and more efficient benefits to meet the rising needs.

Generally, in an industrialised society, because most people earn their income through their 'labour', so their old age provisions are also mostly and heavily based on this source of income. In theory we can also expect that many undesirable side effects such as disincentive and substitution have been caused due to the high rate of tax, both income tax and contributions. However, under the existing social security system, many improvements are possible. In this study, four criteria are applied to assess or to judge the direction and strategy of reform and options. They are: 'equity', 'adequacy', 'economic efficiency' and 'administrative efficiency'. Because these four criteria are either partly mutually exclusive or contradictory, or partly mutually influenced and reinforced, or partly independent, so the options of different social security provisions are really complicated. These four criteria cannot be achieved by applying only one provision or applying all possible provisions without a rational planning. The framework of social security derived from the Beveridge Report provide us a sound basis to develop a policy to multiply the sources of income for all people including the elderly. This should be a better policy to do so because different provisions have their different merits to achieve certain criteria and their different weaknesses to retard them to achieve other criteria. For this reason, our policy to treat each different provision is to maximise their function and to minimise their shortcomings in order to achieve these four criteria.

In Taiwan the most important private provision of income maintenance is family. Because this provision belongs to voluntary actions, so it tends to achieve the objectives of 'economic efficiency', 'vertical equity' and 'secondary adequacy'. Further, as the security function of family is dependent on children, so the first shortcoming of family is that it cannot cover single persons or married persons without children. They have to depend on other social security provisions such as social assistance and sub-universal schemes, either in cash or in kind. For married persons, including widowed and divorced persons, even if they have children, their children might be disabled, ill, inadequately educated and trained, unemployed or with low income, then they are still not a reliable source of family income. In that case, some public service in kind such as health service and employment service to help them overcome these problems are necessary. As co-residence is a traditional and economical way for children to support their parents in the family and the existing evidence indicates that this trend will decline in the future though it is still as high as 67% nowadays, so the incentive of 'tax deduction' or 'tax credit' is suggested to offer the children who live with their parents. As for those well-off children, if their parents are so poor that they have to live on social assistance, then a 'parents tax' is recommended.

In the field of social insurance, because there are at least four combinations of benefits and contributions, so its options of objectives could also be several. Apart from the general shortcomings, the main shortcomings in Taiwan are that: 1) the benefit level is too low (ie, the objective should be 'adequacy'), 2) no option of pension, all payments are in lump sum, 3) the coverage is quite limited and separate (ie, its objective should be 'administrative efficiency'). Because the low benefit is the result of low contribution, so the practical way to increase benefit is to increase contributions. Under the economic condition of US\$5,000 per capita GNP in 1987, people should be well-off enough to contribute at a higher rate than the present ones. Moreover, the amount of contribution can also be increased by increasing the ratio of insured wage to actual gross wage. When the calculation of contribution is

based on actual gross wage, this ratio is 1.0 or 100%. Furthermore, even if the old age benefit is greatly increased, apart from those who successfully invest their payments by themselves or by their children, there are many risks for lump sum payments, for example, the erosion from inflation, careless spending, loss in investment, etc. However, some people might really need a lump sum payment to undertake some business, a compulsory pension provision might not satisfy all people, so it should be better to have a pension as an option. For the reason of economy and efficiency, the existing separate social insurance systems could be more economical and more efficient if they are integrated as a united single scheme because it will meet the principle of large numbers and 'the scale of economy'. Lastly, the benefits in cash and in kind should be managed by two separate organisations because these two types of benefits are totally different. This division will improve the efficiency of administration and the soundness of financing.

Because the most outstanding element of social assistance is its means-test, so its natural result is its stigmatising. Though this stigmatising could be minimised by using a most generous test. However, it is impossible for the stigma to be totally phased out as long as there is a test. Even assessed by the four criteria, the combination can achieve the least objectives. All evidence demonstrates that social assistance is not a popular provision. Especially for the elderly, as there is a tradition in Chinese culture to respect old people, so social assistance is not a good provision for old age in Chinese society. A sub-universal scheme is a better substitute. However, before such a universal scheme is available, the mean level of assistance should be raised at least up to the official subsistence level for old people. It would be even better if it could be up to actual subsistence level. Besides, all non-pecuniary tests for benefits in kind, mainly old people's homes, also should be better phased out.

It is welcome to have occupational schemes as an additional provision for old age whether it is considered as a secondary social insurance or a scheme with new

characteristics. However, in Taiwan as the characteristic or principle of occupational schemes is similar to social insurance in every aspect, and their coverage also overlaps with the existing social insurance schemes, so, for the objective of 'administrative efficiency', such occupational schemes could be integrated with the existing social insurance schemes. We could then create a new type of occupational scheme which is based on the other economic productive factor, 'capital', rather than 'labour' any longer. Many good side effects on the economic structure of Taiwan may be expected.

As for universal allowance, its objectives could be achieved at maximal level if the scheme is financed by progressive or proportional taxes though there are some differences between a sub-universal scheme and an all-universal one. However, it is financially possible and culturally desirable in Taiwan to establish a sub-universal scheme for the elderly, both in cash and in kind. Further, our long-term goal is to pursue an all-universal scheme in Taiwan. It is difficult for a country to carry out such a scheme unless its financing base of social security can be shifted from the economic element, labour, to another two elements, land and capital. Fortunately, Dr. Sun Yat-sen's *Tripeoplism* presents us with a feasible plan and an efficient political machine to achieve this reform. Therefore, a universal scheme is possible in Taiwan in the future.

Finally, all options and reforms must be carried out through political procedure. In Taiwan the low legal status of LI scheme has caused special difficulty in achieving our objectives. These difficulties can be removed only after the status of LI bureau can be upgraded in existing political system. As for the factor of party, it could be either an advantage or a disadvantage in the reform of social security just depending on whether the policy can meet the needs of the people or not. However, a democratisation of the party system is suggested.

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## CHAPTER 10

### CONCLUSION

#### 10.1. Questions and Problems

As mentioned in chapter 1, *Introduction*, the main purpose of this thesis is to answer the question: what kind of income maintenance provision for the elderly should be applied to tackle the problem of economic insecurity in Taiwan? Surrounding this question, the discussion has developed from chapter 2 to chapter 8. Finally, some options for change are made in chapter 9.

Generally, Taiwan is a very small country scarce in natural resources and with a high density of population. The large population of Taiwan is both an advantage and a burden for her economic development. Several indicators such as per capita GNP, the number of telephones, TV sets and motor vehicles per 1,000 inhabitants are used to measure the economic achievement of Taiwan. Her achievement is substantial. This provides a good base to improve the existing provisions or even to establish new ones. However, due to the industrialisation of economic production, the rate of economically active population in primary industry was reduced from 56.1% in 1952 to 17.5% in 1985. In the same period, the rate in secondary was increased from 16.9% to 41.4% and tertiary industry from 27.0% to 41.1%. This profound change in economic structure demonstrates that the income of more employed people will become vulnerable and unreliable because their earnings are based on 'labour' rather than on 'land' and 'capital'. Moreover, the current medium and small scale enterprises could also be a disadvantage in not only the matter of research for further development of the economy, but also the administration of social security provisions though they have ever made a great contribution to the achievement of efficiency and equal income distribution.

Due to the decline of the birth rate and the rise of life expectancy, the proportion of old people will keep steadily growing until a ZPG state is reached. According to



population projections, the population of Taiwan will reach this ZPG state in between 2022 and 2027 at a population of between 24 and 25 million. At that time, the number of old people will be between 3.5 and 4.3 million, a ratio of between 14.8% and 16.9% of total population. Compared to today's 5%, it will be a threefold increase. This significant change of population structure can be demonstrated in many measurements of old age. Of course, the expenditure to support the elderly in the future will also increase in the same line even if the benefit level is only the same as today.

In order to tackle the problem of income insecurity of the elderly, the author has made a brief review of the possible provisions of income maintenance. They are employment, saving, investment, family (mainly 'children') and social security. Comparatively, 'family' and 'social security' are more popular than other provisions in Taiwan.

Both in theory and in practice, family is the main provision for old people in Taiwan. And the most efficient way for a family to play this role is the co-residence of old parents with their children. But both in attitude and in fact, the rate of co-residence tends to decline. This tendency will greatly reduce the function of family as an old age provision. Apart from this negative tendency, as an old age provision, family itself also has its own limitations. Apart from single persons and married persons without children, even for married persons with children, if their children are disabled, unemployed or low paid, family will be unable to play its function of social security. Due to these limitations, further measures must be provided as a second safety net.

Although the provisions of social security can be classified into three main patterns: social assistance, social insurance and universal allowance, for the current old people, only government retirees and veterans have the option of occupational pensions in secondary social insurance. All LI retirees (who are the majority of total

retirees) receive only lump sum payments in primary social insurance, so the existing old age provisions are not adequate for the majority of insurance retirees, not to mention those who were originally excluded from insurance schemes. Generally, the older the old people, the more of them have to depend on their children and/or assistance, and the fewer of them can depend on retirement payments, employment wage and savings. There is evidence that at least 11% of old people are very poor.

From the point of the number of beneficiaries, because social insurance schemes, either primary or secondary, have the largest coverage in social security in Taiwan, so it can be said that social security in Taiwan is social insurance-oriented. Including military insurance, the total insured persons were about 5,466 thousand in 1985. It was about 28% of the total population, 40% of population aged 15 and over, and 66% of labour force or 68% of employed persons.

The insured persons are allocated into 12 different schemes which are administered by three different main insurers. All schemes are not only comprehensive, employment-related, but also adopt a policy of low contribution rates. Therefore, several disadvantages can easily be envisaged. Firstly, as Taiwan is a small country with a small population though her density of population is very high, so it is certainly an administrative waste to set up three different administrative agencies to administer similar groups of contingencies for three different groups of insured persons. The division of insured persons is contradictory to the principles of large numbers and risk-pooling of social insurance. So it is difficult for the administration to reach its optimum of economy and efficiency. Furthermore, it will also cause problems for labour mobility and double claims of one contingency.

Secondly, the characteristic of comprehensiveness in theory should be an advantage to simplify administration, for example the collection of contributions, not certainly a weakness. But in Taiwan because the schemes include benefits both in cash and in kind, so it leads to the complexity of management in both accounting and

administration. Moreover, because the systems are also employment-related, whenever an insured person permanently quits his job, either through resignation or retirement, he will lose his entitlement to all benefits, even retirement payment, if he cannot satisfy the requirements.

Thirdly, the logical result of low contributions is a low level of benefit. In turn a low level of lump sum payments will make a pension either impossible or meaningless.

As for occupational schemes, generally, their provisions are quite good for the government scheme and military scheme in both their level and types of payment. But the private scheme for LI retirees is less satisfactory because not only is its maximum payment only 45 months but also no option of monthly payment is available. As for social assistance, its main problem is that its test is too severe and its benefit is too low to meet needs. As for the main problem of sub-universal schemes, at the present stage, it is that their coverage is very limited.

As for the health situation of old people, 43% of them are healthy, 36% of them are unhealthy and need medical care, and the remaining 21% in transition. In general, old people certainly need more health care than young people. But unfortunately, because the existing insurance health service is provided by comprehensive, employment-related systems, so old people are disqualified from joining health insurance any more after they are retired. Only government retirees are allowed to join health insurance voluntarily and veterans and the dependants of military servants can get free medical service. According to the author's research, at least 60% of retirees who retired in 1984 need to self-finance their medical expenditure. This figure would be higher in the total population of old people.

## 10.2. Reforms and Changes

In response to these shortcomings of existing social security provisions, some necessary measures must be raised to tackle them. First of all, because all types of provision have their merits and limits, so our general policy to tackle the income insecurity problem of old people is to multiply their sources of income: not only the number but also the heterogeneity of their sources in order to achieve all four criteria of assessment. Under this general policy, we then try to improve the existing provisions or to establish new ones if it is necessary.

### 10.2.1. Family

Family can be considered as an effective income maintenance provision only if old parents and their children live together. Apart from parents with disabled children who have to be treated by a different policy, generally, our objective is to encourage them to live together. The positive policy to achieve this goal is to adopt a "parents' tax deduction" for well-off children and a "parents' tax credit" for the unemployed or low paid children if and only if they live together. As for the level of deduction or credit, they could be any level as long as the financing ability is allowable. But for tax credit, it should be at least equal to subsistence level or assistance level.

### 10.2.2. Primary Social Insurance

Firstly, because low benefits are the result of low contributions, so the way to increase benefits is to increase contributions. The way to increase contributions can be divided into two steps. The first step is to increase the ratio of insured wage to gross wage. The maximum of this increase is from the current 0.5 to 1.0, ie, insured wage equals gross wage. The second step is to increase the contribution rate from the current 8% to more than 10%. In LI, to phase out the ceiling of contributions is another way to increase contributions.

Secondly, because a lump sum payment is not a good provision to protect the old age of all people, so there should be an option of pensions for the people who are in

need. Of course, pension scheme must have an adequate contribution as its financial base, or its level will be too low to meet needs. In theory a pension scheme can be based on either funded method or pay-as-you-go method, but in practice it will be mainly based on a pay-as-you-go method if inflation is ubiquitous and significant. In the pay-as-you-go system, the contribution rate will be determined by the following two factors: 1) the ratio of earners to pensioners and 2) the replacement rate of benefit, ie, the ratio of pension to net earnings. In Taiwan when the population becomes stable, neither growing nor declining, ie, approaches a ZPG state, then the ratio of earners to pensioners will decline from the current 9-1 to only 3-1, and the financing burden of future generations will be very heavy, so a revised semi-pay-as-you-go method or semi-funded method is proposed.

Thirdly, as all social insurance schemes are employment-related, so in principle all employed persons should be included. But in fact, apart from military servants and government employees, many employed persons in the private sector such as employees employed by employers employing less than 5 persons, the self-employed, unpaid domestic workers and employers are not legally included by LI Act. Among these excluded employed persons, apart from the employees employed by employers employing less than 5 persons, 28.8% of them were self-employed, 10.8% of them were unpaid domestic workers, 4.3% of them were employers in 1985. Their total was as high as 36%. If the figure of excluded employees was also available, this figure would be even higher. We also know that the industries of excluded employed persons are agriculture, commerce, social and personal services, etc. This information gives us a direction to enlarge the coverage of the LI scheme. After the implementation of Health Insurance for Farmers (HIF) in 1985, the figure of excluded persons was reduced to 34.5%.

Fourthly, two principles of economic management are raised to pursue for the goal of efficiency. The principle of 'the minimum scale of economy' can be achieved if the three main similar social insurance systems should be integrated as one united

system in order to increase the number of insured persons up to its maximum. The task of management can be simplified if benefits in cash and benefits in kind should be divided into two separate systems. Especially for the LI scheme, the phenomenon of old age reserves exhausted by medical expenditure should be avoided.

### 10.2.3. Social Assistance

Due to the effects of stigma and disgrace, both in theory and in practice, this provision will be the less popular one. In principle, we like to encourage people to utilise this provision as the last resort. For this reason, it should be our policy to keep the level of assistance not higher than the levels of all other social security benefits. But at present, as many other social security benefits are unable to meet the basic needs of the people, so it is really a difficulty to increase the benefits of social assistance only. However, after the other benefits have been improved, the level of cash assistance can be increased by several steps. The first step is to increase the level from current actual assistance level to official subsistence level. The second step is to increase from official subsistence level to actual subsistence level. The last step is to improve the actual subsistence level by increasing the percentage from 40% to 50% or even 60% of average consumption expenditure.

As for assistance in kind, medical services benefit the poor and the elderly substantially. But the service of old people's homes is contradictory to the value and ideal of Chinese culture, so its best reform is to transfer this service from the social assistance system to a sub-universal system. Before this reform is achieved, the improvement of old people's homes can be made through the following two paths: 1) the criterion of means test should be improved from the current zero income to an official assistance level or even to an official subsistence level; 2) the elderly whose children are unable to support them owing to disability, illness, unemployment or even low pay should be allowed to move into old people's homes if they wish. As our policy is to encourage the co-residence of old parents with their children, a tax credit with a value equal to the cost of old people's homes should be available as an option



or alternative.

#### **10.2.4. Occupational Schemes**

When we consider occupational schemes as the secondary social insurance, public occupational schemes for government employees and military servants are not only better than their primary social insurance benefits, but also have the option of monthly payments, so they are more important than primary insurance provision for these workers. But for private schemes, because 98% of enterprises are of medium and small scale, so it is in fact impossible to require all employers to provide the same standard of benefits as the public sector. In the field of the private sector, as the coverage of occupational schemes is the same as that of the LI scheme, even their maximum payments and the basic characteristics are also the same, so it would be possible to integrate the two schemes. It could be better just to require employers to pay their occupational contributions to the existing LI scheme, and require the LI scheme to fully-fund these contributions and to increase the same amount of old age payments for the retired. It would be more simple, safer, and more efficient.

In order to make the occupational scheme with its own new characteristics and new function, we suggest a new policy to establish this scheme based on the other economic productive elements such as 'capital' rather than 'labour', ie, we do not treat occupational schemes as the provisions of secondary social insurance any longer. Under this new policy, we may require the employers to provide another income source for their retirees by selling or giving their company's share or stock to their employees. This is concordant with our general policy: to multiply the sources of income for old people.

#### **10.2.5. Universal Schemes**

For old people, in Taiwan there are only sub-universal schemes providing health services for veterans and military servants and the dependants of military servants. In theory the reform of this sub-universal service should be to extend its coverage to a



larger degree, and finally to include all old people. But under the existing free market-style health service system, a universal old age health service will be extremely expensive. The possible way to extend or to establish such a universal health service scheme is to base it on a reference system in order to avoid abuse.

According to the value and ideal of Chinese culture, social assistance is definitely not a good way to provide both benefits in cash and benefits in kind for the elderly due to its stigma and disgrace. Social insurance can avoid these side effects, but it has its own shortcoming, exclusion. Especially this shortcoming tends to adversely affect the people who are originally disadvantaged. Therefore, a sub-universal scheme is the most adequate provision for old people. As we want to strengthen the function of family, we suggest the provision of these sub-universal benefits be based on the methods of tax deduction or tax credit for the elderly with children; but for those who have no children, a neutral policy will need to be applied.

All universal schemes, either sub-universal provisions or all-universal provisions, are relative expensive due to its large coverage. So how to solve the financing problem of universal schemes is a vital issue. Traditionally, people in western welfare states tried to tackle this problem with mainly the fiscal method to tax earnings from one of the economic productive elements, labour. When the schemes are very expensive, their high taxes will definitely cause serious side effects and disincentives. This is the main reason why universal schemes are so difficult to be implemented. For this financing problem, Dr. Sun Yat-sen's *Tripeoplism* provides an alternative way to transfer the financing sources of universal schemes from 'labour' to the other two economic productive elements, 'land' and 'capital'. This should be expended further as it might be a feasible way to overcome this financing problem. Once the financing problem is tackled, a universal scheme will be able to be carried out for all people. This is our dream.

# APPENDIX

Table A1 Population in Taiwan Area:  
Number and Composition (1,000)

Year	Total		0-14 A	15-64 B	65+ C
	end of year	mid of year			
1946	6 091		2 639	3 297	155
1947	6 498	6 294	2 750	3 583	164
1948	6 808	6 653	2 856	3 777	175
1949	7 397	7 102	3 041	4 172	185
1950	7 554	7 476	3 129	4 237	189
1951	7 869	7 712	3 312	4 364	193
1952	8 128	7 999	3 443	4 482	203
1953	8 438	8 283	3 605	4 624	208
1954	8 749	8 594	3 768	4 766	215
1955	9 078	8 913	3 940	4 915	223
1956	9 390	9 234	4 123	5 039	229
1957	9 690	9 540	4 289	5 165	237
1958	10 039	9 949	4 472	5 320	248
1959	10 431	10 407	4 675	5 501	256
1960	10 792	10 792	4 904	5 620	268
1961	11 149	11 152	5 112	5 759	278
1962	11 512	11 528	5 293	5 932	286
1963	11 884	11 903	5 446	6 135	303
1964	12 257	12 281	5 573	6 367	317
1965	12 628	12 654	5 667	6 626	335
1966	12 993	13 021	5 712	6 929	353
1967	13 297	13 363	5 755	7 175	367
1968	13 650	13 683	5 794	7 474	383
1969	14 335	14 096	5 806	8 125	404
1970	14 676	14 505	5 821	8 426	428
1971	14 995	14 835	5 805	8 736	454
1972	15 289	15 142	5 797	9 012	480
1973	15 565	15 427	5 769	9 292	503
1974	15 852	15 709	5 733	9 586	534
1975	15 150	16 001	5 705	9 880	565
1976	16 508	16 329	5 723	10 186	600
1977	16 813	16 661	5 705	10 465	643
1978	17 136	16 974	5 699	10 755	682
1979	17 479	17 308	5 714	11 041	724
1980	17 805	17 642	5 714	11 329	762
1981	18 136	17 970	5 731	11 605	799
1982	18 458	18 297	5 763	11 857	838
1983	18 733	18 595	5 768	12 089	875
1984	19 013	18 873	5 737	12 354	922
1985	19 258	19 135	5 696	12 589	973
1986	19 455	19 356	5 640	12 788	1027

Note: Including servicemen since 1969

source: MOI, 1985a:1064; DOH, 1895:54; CEPD, 1987a:4-5,8

Table A2 Population in Taiwan Area:  
Change and Comparison (1,000)

Year	Net Change		Natural Increase		Births		Deaths	
	000	%	000	%	000	0/00	000	0/00
1947	404	6.6	127	2.0	241	38.3	114	18.2
1948	311	4.8	168	2.5	264	39.7	95	14.3
1949	591	8.7	207	2.9	301	42.4	93	13.1
1950	157	2.1	238	3.2	324	43.3	86	11.5
1951	315	4.2	296	3.8	385	50.0	89	11.6
1952	259	3.3	294	3.7	373	46.6	79	10.0
1953	310	3.8	296	3.6	375	45.2	78	9.4
1954	311	3.7	313	3.6	384	44.6	70	8.2
1955	328	3.8	327	3.7	404	45.3	77	8.6
1956	313	3.4	340	3.7	414	44.8	74	8.0
1957	300	3.2	314	3.3	395	41.4	81	8.5
1958	349	3.6	336	3.4	411	41.7	75	7.6
1959	392	3.9	347	3.4	421	41.2	74	7.2
1960	361	3.5	346	3.3	419	39.5	74	7.0
1961	357	3.3	346	3.2	420	38.3	74	6.7
1962	363	3.3	351	3.1	423	37.4	73	6.4
1963	372	3.2	353	3.0	424	36.3	72	6.1
1964	373	3.1	348	2.9	417	34.5	69	5.7
1965	372	3.0	339	2.7	407	32.7	68	5.5
1966	364	2.9	345	2.7	415	32.4	70	5.5
1967	304	2.3	302	2.3	374	28.0	72	5.4
1968	354	2.7	321	2.3	394	28.8	74	5.4
1969	684	5.0	320	2.3	391	27.7	71	5.0
1970	341	2.4	323	2.2	394	27.2	71	4.9
1971	319	2.2	309	2.1	380	25.6	71	4.8
1972	294	2.0	294	1.9	366	24.2	71	4.7
1973	276	1.8	293	1.9	367	23.8	73	4.8
1974	287	1.8	293	1.9	368	23.4	75	4.8
1975	297	1.9	293	1.8	368	23.0	75	4.7
1976	358	2.2	347	2.1	423	25.9	77	4.7
1977	305	1.8	316	1.9	396	23.8	79	4.8
1978	323	1.9	330	1.9	409	24.1	79	4.7
1979	344	2.0	341	2.0	423	24.4	82	4.7
1980	326	1.9	329	1.9	413	23.4	84	4.8
1981	330	1.9	326	1.8	413	23.0	87	4.8
1982	322	1.8	317	1.7	404	22.1	87	4.8
1983	275	1.5	292	1.6	382	20.6	91	4.9
1984	280	1.5	280	1.5	370	19.6	90	4.8
1985	245	1.3	253	1.3	345	18.0	92	4.8
1986	197	1.0	213	1.1	308	15.9	95	4.9

Note: Including military servicemen since 1969

Source: MOI, 1985a:1064; CEPD, 1987a:4-5

Table A3 Population in Taiwan Area  
---Change and Comparision

Year	% in Population (1)			Ratios (2)			(2)
	0-14 A	15-64 B	65+ C	A/B	C/B	(A+C)/B	Aging Index C/A
1946	43.3	54.1	2.6	80.0	4.7	84.7	5.9
1947	42.3	55.1	2.5	76.8	4.6	81.4	6.0
1948	42.0	55.5	2.6	75.0	4.6	79.6	6.1
1949	41.1	56.4	2.5	72.9	4.4	77.3	6.1
1950	41.4	56.1	2.5	73.9	4.5	78.4	6.0
1951	42.1	55.5	2.5	75.9	4.4	80.3	5.8
1952	42.4	55.1	2.5	76.8	4.5	81.3	5.9
1953	42.7	54.8	2.5	78.0	4.5	82.5	5.8
1954	43.1	54.5	2.5	79.1	4.5	83.6	5.7
1955	43.4	54.1	2.5	80.2	4.5	84.7	5.6
1956	43.9	53.7	2.4	81.8	4.5	86.4	5.6
1957	44.3	53.3	2.4	83.0	4.6	87.6	5.5
1958	44.5	53.0	2.5	84.1	4.7	88.7	5.5
1959	44.8	52.7	2.5	85.0	4.7	89.6	5.5
1960	45.4	52.1	2.5	87.3	4.8	92.0	5.5
1961	45.9	51.7	2.5	88.8	4.8	92.0	5.4
1962	46.0	51.5	2.5	89.2	4.8	94.1	5.4
1963	45.8	51.6	2.6	88.8	4.9	93.7	5.6
1964	45.5	51.9	2.6	87.5	5.0	92.5	5.7
1965	44.9	52.5	2.7	85.5	5.1	90.6	5.8
1966	44.0	53.3	2.7	82.4	5.1	87.5	6.2
1967	43.3	54.0	2.8	80.2	5.1	85.3	6.4
1968	42.5	54.8	2.8	77.5	5.1	82.6	6.6
1969	40.5	56.6	2.8	71.5	5.0	76.4	7.0
1970	39.7	57.4	2.9	69.1	5.1	74.2	7.2
1971	38.7	58.3	3.0	66.4	5.2	71.6	7.8
1972	37.9	59.0	3.1	64.3	5.2	69.6	8.3
1973	37.1	59.7	3.2	62.1	5.4	67.5	8.7
1974	36.2	60.5	3.4	59.8	5.6	65.4	9.3
1975	35.3	61.2	3.5	57.7	5.6	63.4	9.9
1976	34.7	61.7	3.6	56.2	5.9	62.1	10.5
1977	33.9	62.3	3.8	54.5	6.1	60.7	11.3
1978	33.3	62.8	4.0	53.0	6.3	59.3	12.0
1979	32.7	63.2	4.1	51.7	6.6	58.3	12.7
1980	32.1	63.6	4.3	50.4	6.7	57.2	13.3
1981	31.6	64.0	4.4	49.4	6.9	56.3	13.9
1982	31.2	64.2	4.5	48.6	7.1	55.7	14.5
1983	30.8	64.5	4.7	47.7	7.2	54.9	15.2
1984	30.2	65.0	4.8	46.4	7.5	53.9	16.1
1985	29.6	65.3	5.0	45.2	7.7	53.0	17.1
1986	29.0	65.7	5.3	44.1	8.0	52.1	18.2

Source: CEPD, 1987a:8

Note: A/B = young dependency ratio

C/B = old dependency ratio

(A+C)/B = dependency ratio

C/A = aging index

Table A4 Life Expectation in Taiwan Area

Year	At Births		At 65 years	
	male	female	male	female
1950	52.90	56.32	10.20	12.91
1951	53.10	57.32	10.04	12.71
1952	56.50	60.68	10.91	13.91
1953	58.30	62.35	10.64	13.34
1954	59.86	64.16	11.10	14.06
1955	59.91	65.03	10.47	13.80
1956	59.79	65.41	10.25	13.47
1957	59.89	65.02	10.31	13.26
1958	61.26	67.22	11.32	14.53
1959	61.80	66.72	10.96	13.43
1960	61.80	67.07	10.77	13.35
1961	62.26	67.72	11.02	13.69
1962	62.62	67.89	11.07	13.53
1963	63.25	68.31	11.31	13.62
1964	63.75	69.23	11.55	14.03
1965	64.52	69.98	11.95	14.30
1966	64.14	69.68	11.64	14.06
1967	64.22	69.65	11.54	13.70
1968	63.55	69.74	11.20	13.66
1969	65.12	70.77	12.00	14.42
1970	66.08	71.21	11.89	14.40
1971	67.19	72.08	11.95	14.57
1972	67.56	72.30	12.26	14.48
1973	67.57	72.48	12.17	14.54
1974	67.80	72.76	12.20	14.63
1975	68.27	73.42	12.45	14.92
1976	68.70	73.59	12.61	14.87
1977	68.69	73.85	12.83	15.21
1978	69.15	74.32	13.22	15.61
1979	69.36	74.48	13.32	15.56
1980	69.56	74.54	13.48	15.67
1981	69.74	74.64	13.62	15.48
1982	69.86	74.86	13.32	15.44
1983	69.90	75.08	13.23	15.57
1984	70.46	75.53		
1985	70.8	75.8		

Source: DOH, 1985:58-61

Table A2.1 The Age Qualified for Old Age Benefits in Social Security

Age	No	Countries
(M-F)		
70-70	1	Hong Kong
67-67	3	Denmark, Iceland, Norway
66-66	1	Ireland
65-65	17	Canada, Cyprus, Finland, Kuwait, Luxembourg, Mexico, Netherland, Spain, Sweden, USA, etc.
65-62	2	Portugal, Switzerland
65-60	16	Australia, Austria, Belgium, Brazil, Chile, E. Germany, Greece, Isreal, Poland, South Africa, UK, etc.
63-63	1	W. Germany
62-62	1	Saint Christopher and Nevis
61-60	1	Malta
60-60	26	Egypt, France, Kenya, Morocco, New Zealand, Paraguay, Philiphine, Saudi Arabia, Syria, Tunisia, etc.
60-55	24	Algeria, Argentina, Bulgaria, China, Colombia, Cuba, Hungary, Iran, Iraq, Italy, Japan, Jordan, Lebanon, Panama, Peru, Sudan, Taiwan(R.O.C.), USSR, Uruguay, Venezuela, Yugoslavia, etc.
60-53~7	1	Czechoslovakia
59-59	1	Zaire
57-55	1	Costa Rica
55-55	24	Chad, Congo, Ecuador, Fiji, Gambia, Guinea, Haiti, India, Indonesia, Malaysia, Mali, Nigeria, Singapore, Tanzania, etc.
55-50	6	Bolivia, Central African Republic, Ghana, Pakistan, Sri Lanka, Tuekey
50-50	2	Kivibati(Gilbert Island), Zanzia
45-45	2	Swaziland, Uganda
40-40	1	Solomon Islands
open	1	Nepal

Source: U.S. Department of Health and Human Service, Washington,D.C.

Table A2.2 Townsend's Deprivation Index

Characteristic	% of D
1. Has not had a week's holiday away from home in last twelve months.	53.6
2. Adults only. Has not had a relative or friend to the home for a meal or snack in the last 4 weeks.	33.4
3. Adults only. Has not been out in the last 4 weeks to a relative or friend for a meal or snack.	45.1
4. Children only (under 15). Has not had a friend to play or to tea in the last 4 weeks.	36.3
5. Children only. Did not have party on last birthday.	56.6
6. Has not had an afternoon or evening out for entertainment in the last two weeks.	47.0
7. Does not have fresh meat (including meals out) as many as four days a week.	19.3
8. Has gone through one or more days in the past fortnight without a cooked meal.	7.0
9. Has not had a cooked breakfast most days of the week.	67.3
10. Household does not have a refrigerator.	45.1
11. Household does not usually have a Sunday joint (3 in 4 times).	25.9
12. Household does not have sole use of four amenities indoor (flush WC, sink or washbasin and cold-water tap, fixed bath or shower, and gas or electric cooker).	21.4

Note: % of D = % of population going without

Source: Townsend, 1979:250



Table A2.3 The Public's Perception of Necessities

Standard-of-living items in rank order	% of N
1. Heating to warm living areas of the home if it is cold	97
2. Indoor toilet (not shared with another household)	96
3. Damp-free home	96
4. Bath (not shared with another household)	94
5. Beds for everyone in the household	94
6. Public transport for one's needs	88
7. A warm water-proof coat	87
8. Three meals a day for children *	82
9. Self-contained accommodation	79
10. Two pairs of all-weather shoes	78
11. Enough bedrooms for every child over 10 of different sex to have his/her own *	77
12. Refrigerator	77
13. Toys for children *	71
14. Carpets in living rooms and bedrooms	70
15. Celebrations on special occasions such as Christmas	69
16. A roast meat joint or its equivalent once a week	67
17. A washing machine	67
18. New, not second-hand, clothes	64
19. A hobby or leisure activity	64
20. Two hot meals a day (for adults)	64
21. Meat or fish every other day	63
22. Presents for friends or family once a year	63
23. A holiday away from home for one week a year, not with relatives	63
24. Leisure equipment for children e.g. sports equipment or a bicycle *	57
25. A garden	55
26. A television	51
27. A 'best outfit' for special occasions	48
28. A telephone	43
29. An outing for children once a week *	40
30. A dressing gown	38
31. Children's friends round for tea/a snack once a fortnight *	37
32. A night out once a fortnight (adults)	36
33. Friends/family round for a meal once a month	32
34. A car	22
35. A packet of cigarettes every other day	14

Note: \* = for families with children

% of N = % classing item as necessity

Source: Mack and Lansley, 54

Table A5.1 The Base Year for Population Projection, Taiwan Area  
(mid year, 1985) Unit=1,000

Age(years)	Total	Male	Female
All ages	19 135 283	9 934 843	9 200 440
0 - 4	1 891 998	975 863	916 135
0	359 409	185 469	173 940
1	367 955	189 847	178 108
2	378 102	195 033	183 069
3	388 547	200 358	188 188
4	397 985	205 156	192 829
5- 9	2 009 574	1 034 817	974 757
10-14	1 815 035	932 719	882 316
15-19	1 912 802	980 840	931 962
20-24	1 998 968	1 023 941	975 027
25-29	1 884 245	962 374	921 871
30-34	1 673 025	854 427	818 598
35-39	1 095 542	561 769	533 773
40-44	908 135	464 215	443 920
45-49	853 665	432 019	421 646
50-54	795 078	428 865	366 213
55-59	764 266	453 213	311 053
60-64	585 571	341 120	244 451
65-69	395 149	220 087	175 062
70-74	288 336	151 934	136 402
75-79	158 285	73 905	84 380
80+	105 609	42 735	62 874

Note: 1) The population aged 0 to 4 were adjusted by the multipliers of Beers Ordinary Formula.

2) Based on registered population aged 5 years and over.

Source: CEPD, 1986b: 20

Table A5.2 Estimates of Total Fertility Rates and Age Specific Fertility Rates, Taiwan Area, 1955-1985

Year	Total Fertility Rate	Age Specific Fertility Rates						
		15-19 years	20-24 years	25-29 years	30-34 years	35-39 years	40-44 years	45-49 years
1955	6 530	50	273	341	295	219	103	25
1960	5 750	48	253	333	255	169	79	13
1965	4 825	36	261	326	195	100	41	6
1970	4 000	40	238	293	147	59	20	3
1975	2 830	37	194	215	83	27	8	2
1976	3 075	38	213	240	87	28	8	1
1977	2 700	37	194	206	73	23	6	1
1978	2 710	36	194	213	73	20	5	1
1979	2 660	35	194	209	72	18	4	0
1980	2 515	33	180	200	69	16	4	1
1981	2 455	31	176	197	69	14	3	1
1982	2 320	29	166	186	66	14	3	0
1983	2 155	26	154	174	62	13	2	0
1984	2 050	23	144	168	60	13	2	0
1985	1 900	21	135	155	55	12	2	0

Note: T.F.R. = 5 times (Age-Specific-Birth-Rates)

Source: CEPD, 1986b: 21

Table A5.3 Projections of Total Fertility Rates and Age Specific Fertility Rates, Taiwan Area, 1985-2030

Year	Total Fertility Rate	Age Specific Fertility Rates						
		15-19 years	20-24 years	25-29 years	30-34 years	35-39 years	40-44 years	45-49 years
High								
1985	1 900	21.0	135.0	155.0	55.0	12.0	2.0	0
2030	1 900	21.0	135.0	155.0	55.0	12.0	2.0	0
Medium								
1985	1 900	21.0	135.0	155.0	55.0	12.0	2.0	0
1990	1 825	20.6	126.4	145.1	56.8	13.8	2.3	0
1995	1 750	20.2	117.7	135.2	58.6	15.5	2.7	0
2000	1 750	20.2	117.7	135.2	58.6	15.5	2.7	0
2030	1 750	20.2	117.7	135.2	58.6	15.5	2.7	0
Low								
1985	1 900	21.0	135.0	155.0	55.0	12.0	2.0	0
1990	1 750	20.2	117.7	135.2	58.6	15.5	2.7	0
1995	1 600	19.5	100.5	115.5	62.2	19.0	3.3	0
2000	1 600	19.5	100.5	115.5	62.2	19.0	3.3	0
2030	1 600	19.5	100.5	115.5	62.2	19.0	3.3	0

Source: CEPD, 1986b: 22

Table A5.4 Assumptions of Life Expectancy, Taiwan Area

Age	1985		1995		2010	
	Male	Female	Male	Female	Male	Female
0	70.80	75.80	71.87	77.68	73.00	79.50
1	70.31	75.27	71.37	77.15	72.49	78.95
5	66.61	71.53	67.62	73.31	68.68	75.03
10	61.77	66.64	62.70	68.30	63.69	69.90
15	56.91	61.73	57.77	63.27	58.68	64.75
20	52.22	56.86	51.44	58.28	53.84	59.64
25	47.60	52.04	48.32	53.34	49.08	54.59
30	42.97	47.22	43.62	48.40	44.98	49.53
35	38.36	42.42	38.94	43.48	40.15	44.50
40	33.84	37.68	34.38	38.62	35.42	39.52
45	29.46	33.00	29.91	33.82	30.84	34.62
50	25.25	28.45	25.43	29.16	26.43	29.84
55	21.21	24.07	21.53	24.67	22.20	25.25
60	17.37	19.88	17.63	20.38	18.18	20.85
65	13.83	15.97	14.04	16.37	14.48	16.75
70	10.69	12.43	10.85	12.74	11.19	13.04
75	8.04	9.39	8.16	9.62	8.41	9.85
80	5.98	6.97	6.07	7.14	6.26	7.31
85	4.70	5.36	4.77	5.49	4.92	5.62

Source: CEPD, 1986b: 23

Table A5.5 Total Population Projections and Components of Change,  
Taiwan Area, 1985-2030

Year	Total Populat'n 000	Net Change 0/0	Births 000	Deaths 000	Natural Increase 000	Births 0/00	Deaths 0/00	Natural Increase 0/00
High Projection								
1985	19 135	1.4	344	92	253	18.0	4.8	13.2
1990	20 394	1.2	358	107	251	17.6	5.3	12.3
1995	21 575	1.1	351	123	228	16.3	5.7	10.6
2000	22 658	1.0	351	139	212	15.5	6.1	9.4
2005	23 677	0.8	353	155	198	14.9	6.6	8.4
2010	24 560	0.7	339	177	162	13.8	7.2	6.6
2015	25 260	0.5	325	198	127	12.9	7.9	5.0
2020	25 800	0.4	318	222	96	12.3	8.6	3.7
2025	26 192	0.3	316	250	66	12.0	9.5	2.5
2030	26 417	0.1	314	285	29	11.9	10.8	1.1
Medium Projection								
1985	19 135	1.4	344	92	253	18.0	4.8	13.2
1990	20 357	1.2	345	107	237	16.9	5.3	11.7
1995	21 434	0.9	325	123	202	15.2	5.7	9.4
2000	22 384	0.8	324	138	185	14.4	6.2	8.3
2005	23 263	0.7	324	155	170	13.9	6.7	7.3
2010	24 005	0.6	310	177	136	12.9	7.4	5.6
2015	24 552	0.4	291	197	94	11.9	8.0	3.8
2020	24 907	0.2	277	221	56	11.1	8.9	2.3
2025	25 085	0.1	270	249	22	10.8	9.9	0.9
2030	25 079	-0.1	266	283	17	10.6	11.3	-0.7
Low Projection								
1985	19 135	1.4	344	92	253	18.0	4.8	13.2
1990	20 320	1.1	331	107	224	16.3	5.3	11.0
1995	21 293	0.8	299	123	176	14.0	5.8	8.3
2000	22 110	0.7	296	138	158	13.4	6.2	7.2
2005	22 849	0.6	295	154	141	12.9	6.8	6.2
2010	23 451	0.5	282	176	106	12.0	7.5	4.5
2015	23 853	0.3	260	197	63	10.9	8.3	2.7
2020	24 040	0.1	241	220	20	10.0	9.2	0.9
2025	24 023	-0.1	229	248	19	9.5	10.3	-0.8
2030	23 811	-0.3	222	282	60	9.3	11.8	-2.5

Source: CEPD, 1986b: 7-9

Table A5.6 Distribution of the Projected Population by 3 Broad Age Groups, Taiwan Area, 1985-2030

	N (1,000)				%			Dependency Ratio (%)		Aging Index (%)
Year	All Ages	0-14 years	15-64 years	65+ years	0-14 years	15-64 years	65+ years			
								Young	Old	
High Projection										
1985	19 135	5 717	12 471	947	29.9	65.1	5.0	45.8	7.6	16.6
1990	20 394	5 642	13 520	1 233	27.7	66.3	6.0	41.7	9.1	21.9
1995	21 575	5 374	14 628	1 572	24.9	67.8	7.3	36.7	10.7	29.3
2000	22 658	5 212	15 602	1 844	23.0	68.9	8.1	33.4	11.8	35.3
2005	23 677	5 208	16 384	2 085	22.0	69.2	8.8	31.8	12.7	40.0
2010	24 560	5 171	17 101	2 289	21.1	69.6	9.3	30.2	13.4	44.3
2015	25 260	5 076	17 608	2 576	20.1	69.7	10.2	28.8	14.6	50.7
2020	25 800	4 919	17 623	3 258	19.1	68.3	12.6	27.9	18.5	66.2
2025	26 196	4 781	17 424	3 986	18.3	66.5	15.2	27.4	22.9	83.4
2030	26 417	4 710	17 065	4 642	17.8	64.6	17.6	27.6	27.2	98.6
Medium Projection										
1985	19 135	5 717	12 471	947	29.9	65.2	5.0	45.8	7.6	16.6
1990	20 357	5 605	13 520	1 233	27.5	66.4	6.1	41.5	9.1	22.0
1995	21 434	5 234	14 628	1 572	24.4	68.3	7.3	35.8	10.7	30.0
2000	22 384	4 938	15 602	1 844	22.0	69.7	8.2	31.6	11.8	37.3
2005	23 263	4 831	16 347	2 085	20.8	70.3	9.0	29.6	12.8	43.2
2010	24 005	4 755	16 961	2 289	19.8	70.7	9.5	28.0	13.5	48.1
2015	24 552	4 641	17 336	2 576	18.9	70.6	10.5	26.8	14.9	55.5
2020	24 907	4 436	17 213	3 258	17.8	69.1	13.1	25.8	18.9	73.4
2025	25 084	4 223	16 875	3 986	16.8	67.3	15.9	25.0	23.6	94.4
2030	25 079	4 072	16 365	4 642	16.2	65.3	18.5	24.9	28.4	114.0
Low Projection										
1985	19 135	5 717	12 471	947	29.9	65.2	5.0	45.8	7.6	16.6
1990	20 320	5 568	13 520	1 233	27.4	66.5	6.1	41.2	9.1	22.1
1995	21 293	5 093	14 628	1 572	23.9	68.7	7.4	34.8	10.7	30.9
2000	22 110	4 664	15 602	1 844	21.1	70.6	8.3	29.9	11.8	39.5
2005	22 849	4 454	16 310	2 085	19.5	71.4	9.1	27.3	12.8	46.8
2010	23 451	4 341	16 821	2 289	18.5	71.7	9.8	25.8	13.6	52.7
2015	23 853	4 214	17 064	2 576	17.7	71.5	10.8	24.7	15.1	61.1
2020	24 040	3 980	16 802	3 258	16.6	69.9	13.6	23.7	19.4	81.9
2025	24 023	3 711	16 326	3 986	15.5	68.0	16.6	22.7	24.4	107.4
2030	23 811	3 495	15 674	4 642	14.7	65.8	19.5	22.3	29.6	132.8

Source: CEPD, 1986b: 11-13

Table A5.7 Economic Indicators

Country	Population in million 1986	Per Capita GNP,US\$ 1986	Per 1,000 Inhabitants		
			Telephone 1984	Television 1984	Motor Vehicle 1984
Taiwan 1981	18.1	2 286	210.6	219.7	44.3
1982	18.4	2 389	236.0	223.0	50.2
1983	18.7	2 583	269.2	229.0	56.7
1984	19.0	2 838	277.6	231.8	64.0
1985	19.2	2 931	293.5	236.3	69.8
1986	19.3	3 142	311.9		77.0
1987	19.4	5 000			
Australia	15.8	11 460	536	428	541.1
Austria	7.6	9 230	476	306	402.3
Belgium	9.9	9 130	430	304	360.5
Canada	25.6	12 280	664('83)	460	567.3('83)
Denmark	5.1	11 540	749	366	334.8
France	55.4	10 480	600	369	409.5('82)
Germany,W.	60.7	11 400	599	354	437.0
Italy	57.2	6 390	426	288	395.0('83)
Japan	121.5	10 100	535	560	363.8
Sweden	8.4	12 440	890('83)	387	397.3
Switzerland	6.5	16 250	810	370	423.5
UK	56.6	9 180	524	457	322.7('83)
USA	241.0	14 080	789('81)	646	701.7('83)

Source: UN, 1986  
CEPD, 1987b

Table A5.8 Ratios of Economic Indicators to That of Taiwan

Country	Per Capita GNP	Per 1,000 Inhabitants		
		Telephone	Television	Motor Vehicle
Australia	3.6	1.9	1.8	8.3
Austria	2.9	1.7	1.3	6.2
Belgium	2.9	1.5	1.3	5.6
Canada	3.9	2.5	2.0	9.9
Denmark	3.7	2.7	1.6	5.2
France	3.3	2.2	1.6	8.1
Germany,W.	3.6	2.2	1.5	6.8
Italy	2.0	1.5	1.2	6.9
Japan	3.2	1.9	2.4	5.6
Sweden	4.0	3.3	1.7	6.2
Switzerland	5.2	2.9	1.6	6.6
UK	2.9	1.9	2.0	5.6
USA	4.5	3.7	2.8	12.2

Source: Calculated from Table 5.1 by author



Table A6 International Population by Age Groups

Country	year	0-14	15-64	65+	aging index
Australia	1981	25.0	65.3	9.7	38.8
Belgium	1981	20.0	65.6	14.4	72.0
Canada	1983	21.9	68.1	10.0	45.7
France	1983	21.8	65.0	13.2	60.6
Germany, W.	1982	16.9	68.1	15.0	88.8
Italy	1981	21.4	65.0	13.6	63.6
Japan	1985	21.6	68.2	10.2	47.5
Korea	1983	32.2	63.8	4.0	12.4
Netherland	1981	21.8	66.6	11.6	53.2
New Zealand	1981	26.7	63.4	9.9	37.1
Sweden	1984	18.7	64.7	17.1	93.7
UK	1984	19.5	65.7	14.9	76.3
USA	1981	22.2	66.2	11.6	52.3

Source: 1.UN, 1984: 316; 2.SBMCA, 1986; 3.CSO, 1986; 3.SS, 1986.

Table A7.1 Population in Sweden  
 ---Number and Component  
 1,000

Year	end- year	mid- year	0-14	15-64	65+
1961	7 498	*7 520	1 664	4 946	888
1962	7 542	*7 562	1 639	4 995	908
1963	7 581	*7 604	1 619	5 036	927
1964	7 628	*7 661	1 607	5 073	948
1965	7 695	*7 734	1 613	5 114	968
1966	7 773	*7 808	1 626	5 154	992
1967	7 843	*7 868	1 643	5 182	1 018
1968	7 893	*7 912	1 655	5 196	1 041
1969	8 004	7 968	1 671	5 248	1 086
1970	8 081	8 043	1 682	5 396	1 003
1971	8 115	8 098	1 687	5 287	1 141
1972	8 129	8 122	1 689	5 274	1 167
1973	8 144	8 137	1 688	5 261	1 196
1974	8 177	8 161	1 693	5 258	1 225
1975	8 208	8 193	1 697	5 260	1 251
1976	8 236	8 222	1 695	5 267	1 274
1977	8 267	8 252	1 687	5 279	1 301
1978	8 284	8 276	1 668	5 293	1 324
1979	8 303	8 294	1 641	5 316	1 345
1980	8 318	8 310	1 615	5 340	1 362
1981	8 323	8 320	1 586	5 359	1 378
1982	8 327	8 325	1 556	5 376	1 395
1983	8 331	8 329	1 534	5 387	1 410
1984	8 343	8 337	1 521	5 397	1 425
1985	8 358	8 350	1 512	5 392	1 454
1986	8 382	8 370	1 505	5 400	1 477
1987	8 414	8 398	1 501	5 420	1 493

Source: SS, 1977-89

Table A7.2 Population in Sweden  
 ---Change and Comparision

Year	Net Change		Natural Increase		Births		Deaths	
	000	0/00	000	0/00	000	0/00	000	0/00
1961		5.9	31	4.1	105	13.9	74	9.8
1962	44	5.2	30	4.0	107	14.2	77	10.2
1963	39	6.1	36	4.8	113	14.9	76	10.1
1964	46	8.8	46	6.0	123	16.0	77	10.0
1965	68	10.0	45	5.8	123	15.9	78	10.1
1966	77	9.0	45	5.8	123	15.8	78	10.1
1967	71	6.3	42	5.3	121	15.4	80	10.1
1968	50	5.3	31	3.9	113	14.3	82	10.4
1969	112	8.6	24	3.1	108	13.5	83	10.5
1970	77	9.8	30	3.8	110	13.7	80	10.0
1971	34	4.3	32	3.9	114	14.1	83	10.2
1972	14	1.9	28	3.5	112	13.8	84	10.4
1973	15	1.5	24	3.0	110	13.5	86	10.5
1974	32	3.9	24	2.9	110	13.5	86	10.6
1975	32	3.9	15	1.9	104	12.7	88	10.8
1976	28	3.3	8	0.9	98	12.0	91	11.0
1977	31	3.7	8	1.0	96	11.6	88	10.7
1978	17	2.1	4	0.4	93	11.3	90	10.8
1979	19	2.3	5	0.6	96	11.6	91	11.0
1980	15	1.8	5	0.6	97	11.7	92	11.1
1981	5	0.6	2	0.2	94	11.3	92	11.1
1982	4	0.5	2	0.3	93	11.1	91	11.0
1983	3	0.4	1	0.1	92	11.0	91	10.9
1984	12	1.5	3	0.4	94	11.3	90	10.9
1985	15	1.9	4	0.5	98	11.8	94	11.3
1986	24	2.8	9	1.0	102	12.2	93	11.2
1987	32	3.9	11	1.4	105	12.5	93	11.1

Source: SS, 1977-89

Table A7.3. Population in Sweden  
 ---Composition and Comparision (%)

Year	Three Age Groups			Dependency Ratios			Aging Index
	0-14	15-64	65+	A/B	C/B	A+C/B	
1961	22.2	66.0	11.8	33.6	18.0	51.6	53.4
1962	21.7	66.2	12.0	32.8	18.2	51.0	55.4
1963	21.4	66.4	12.2	32.2	18.4	50.6	57.2
1964	21.1	66.5	12.4	31.7	18.7	50.3	58.9
1965	21.0	66.5	12.6	31.5	18.9	50.5	60.0
1966	20.9	66.3	12.8	31.6	19.3	50.8	61.0
1967	21.0	66.1	13.0	31.7	19.6	51.4	61.9
1968	21.0	65.8	13.2	31.9	20.0	51.9	62.9
1969	20.9	65.6	13.6	31.8	20.7	52.5	65.0
1970	20.8	66.8	12.4	31.2	18.6	49.8	59.6
1971	20.8	65.2	14.1	31.9	21.6	53.5	67.7
1972	20.8	64.9	14.4	32.0	22.1	54.2	69.1
1973	20.7	64.6	14.7	32.1	22.7	54.8	70.9
1974	20.7	64.3	15.0	32.2	23.3	55.5	72.4
1975	20.7	64.1	15.2	32.3	23.8	56.0	73.7
1976	20.6	64.0	15.5	32.2	24.2	56.4	75.2
1977	20.4	63.9	15.7	32.0	24.6	56.6	77.1
1978	20.1	64.0	16.0	31.5	25.0	56.5	79.4
1979	19.8	64.0	16.2	30.9	25.3	56.2	82.0
1980	19.4	64.2	16.4	30.3	25.5	55.8	84.3
1981	19.1	64.4	16.6	29.6	25.7	55.3	86.9
1982	18.7	64.6	16.8	29.0	26.0	54.9	89.6
1983	18.4	64.7	16.9	28.5	26.2	54.7	91.9
1984	18.2	64.7	17.1	28.2	26.4	54.6	93.7
1985	18.1	64.5	17.4	28.0	27.0	55.0	96.2
1986	18.0	64.4	17.6	27.9	27.4	55.3	98.1
1987	17.8	64.4	17.7	27.7	27.5	55.2	99.5

Source: SS, 1977-89

Note: A/B=Young Dependency Ratio

C/B=Old Dependency Ratio

(A+C)/B=(Total) Dependency Ratio

C/A=Aging Index

Table A8.1 Population in UK---Number and Rate (000)

Year	Total N	Net Change		Natural Increase		Births		Deaths	
		N	0/00	N	0/00	N	0/00	N	0/00
1961	52 807			313	5.9	944	17.9	632	12.0
1966	54 643			336	6.1	980	18.0	644	11.8
1967	54 959	316	5.7	345	6.3	962	17.6	617	11.3
1968	55 214	255	4.6	291	5.3	947	17.2	656	11.9
1969	55 461	247	4.5	261	4.7	920	16.6	660	11.9
1970	55 632	171	3.1	249	4.5	904	16.3	655	11.8
1971	55 928	296	5.3	257	4.6	902	16.2	645	11.5
1972	56 097	168	3.0	160	2.9	834	14.9	674	12.1
1973	56 223	126	2.2	110	2.0	780	13.9	670	12.0
1974	56 236	13	0.2	71	1.3	738	13.2	667	11.9
1975	56 226	-10	-0.2	35	0.6	698	12.5	663	11.8
1976	56 216	-10	-0.2	-5	0.0	676	12.1	681	12.2
1977	56 190	-26	-0.5	2	0.0	657	11.8	655	11.7
1978	56 178	-12	-0.2	22	0.4	687	12.3	667	12.0
1979	56 240	62	1.1	59	1.0	735	13.1	676	12.1
1980	56 330	90	1.6	92	1.6	754	13.5	662	11.8
1981	56 352	22	0.4	74	1.3	731	13.0	656	11.7
1982	56 306	-46	-0.8	56	1.0	719	12.8	663	11.8
1983	56 347	41	0.7	62	1.1	722	12.8	659	11.7
1984	56 460	113	2.0	85	1.5	730	12.9	645	11.4
1985	56 618	158	2.8	80	1.4	751	13.3	671	11.9
1986	56 763	145	2.6	94	1.7	755	13.3	661	11.6
1987	56 930	167	2.9	132	2.3	776	13.6	644	11.3

Source: CSO, 1970-89

Table A8.2. Population in UK---Rate and Comparision

Year	1,000			%			Dependency Ratios			Aging Index
	0-14	15-64	65+	0-14	15-64	65+	A/B	C/B	A+C/B	
1901	12 421	74 007	1 809	32.5	62.8	4.7	51.7	7.5	59.3	14.6
1911	12 968	26 867	2 247	30.8	63.8	5.3	48.3	8.4	56.6	17.3
1931	11 174	31 447	3 418	24.3	68.3	7.4	35.5	10.9	46.4	30.6
1951	11 325	33 433	5 466	22.5	66.6	10.9	33.9	16.4	50.2	48.3
1961	12 336	34 184	6 189	23.4	64.9	11.7	36.1	18.1	54.2	50.2
1971	13 387	34 821	7 307	24.1	62.7	13.2	38.4	21.0	59.4	54.6
1975	13 129	35 192	7 894	23.4	62.6	14.0	37.3	22.4	59.7	60.1
1976	12 897	35 323	7 998	22.9	62.8	14.2	36.5	22.6	59.1	62.0
1977	12 607	35 481	8 102	22.4	63.1	14.4	35.5	22.8	58.3	64.3
1978	12 323	35 641	8 214	21.9	63.4	14.6	34.6	23.0	57.6	66.7
1979	12 069	35 854	8 318	21.5	63.8	14.8	33.7	23.2	56.9	68.9
1980	11 828	36 079	8 428	21.0	64.1	14.9	32.8	22.8	55.5	71.3
1981	11 602	36 278	8 472	20.6	64.4	15.0	32.0	23.4	55.3	73.0
1982	11 365	36 473	8 468	20.2	64.8	15.0	31.1	23.2	54.4	74.5
1983	11 170	36 764	8 417	19.8	65.3	14.9	30.4	22.9	53.2	75.3
1984	10 997	37 079	8 383	19.5	65.7	14.8	29.6	22.6	52.2	76.2
1985	10 896	37 163	8 557	19.2	65.6	15.1	29.3	23.0	52.3	78.5
1986	10 799	37 281	8 683	19.0	65.7	15.3	29.0	23.3	52.3	80.4
1987	10 747	37 369	8 814	18.9	65.6	15.5	28.8	23.6	52.4	82.0

Source: CSO, 1970-89

Table A9.1 Population in Japan---Number and Rate (000)

Year	Total	Net Change		Natural Increase		Births		Deaths	
		N	0/00	N	0/00	N	0/00	N	0/00
1920	55 963					2 026	36.2	1 422	25.4
1925	59 737	861	14.6	913	15.3	2 148	36.0	1 235	20.7
1930	64 450	989	15.6	950	14.7	2 135	33.1	1 185	18.4
1935	69 254	945	13.8	1 012	14.6	2 182	31.5	1 170	16.9
1940	71 933	553	7.8	886	12.3	2 110	29.3	1 224	17.0
1945	71 998	-1691	22.9	-245	33.1	1 902	26.4	2 147	29.8
1950	83 200	1 427	17.5	1 510	18.1	2 417	28.1	907	10.9
1955	89 276	1 036	11.7	1 061	11.9	1 769	19.4	708	7.8
1960	93 419	777	8.4	911	9.8	1 624	17.2	713	7.6
1965	98 275	1 093	11.3	1 099	11.2	1 811	18.6	712	7.1
1970	103 720	1 184	11.5	1 211	11.7	1 932	18.6	721	6.9
1975	111 940	1 367	12.4	1 242	11.1	1 948	17.0	707	6.3
1976	113 094	1 155	10.3	1 160	10.3	1 866	16.2	707	6.2
1977	114 165	1 071	9.5	1 081	9.5	1 781	15.4	700	6.0
1978	115 190	1 025	9.0	1 034	9.0	1 730	14.8	696	6.0
1979	116 155	965	8.4	974	8.4	1 663	14.1	689	5.9
1980	117 060	906	7.8	894	7.6	1 616	13.5	722	6.2
1981	117 902	842	7.2	823	7.0	1 549	12.9	725	6.1
1982	118 728	826	7.0	808	6.8	1 529	12.8	720	6.0
1983	119 536	808	6.8	789	6.6	1 524	12.6	735	6.2
1984	120 305	769	6.4	758	6.3	1 507	12.4	749	6.2
1985	121 049	744	6.2	714	5.9	1 452	12.0	738	6.1
1986	121 672	623	5.2	630	5.2	1 396	11.5	767	6.3
1987	122 264	591	4.9	620	5.1	1 371	11.2	751	6.1

Source: SBMCA, 1982-88



Table A9.2 Population in Japan---Age Groups and Ratios

Year	000			0/0			Dependency Ratio			Aging Index
	0-14	15-64	65+	0-14	15-64	65+	A/B	C/B	A+C/B	
1920	20 416	32 605	2 941	36.5	58.3	5.3	62.6	9.0	71.6	14.4
1925	21 924	34 792	3 021	36.7	58.2	5.1	63.0	8.7	71.7	13.8
1930	23 579	37 807	3 064	36.6	58.7	4.8	62.4	8.1	70.5	13.0
1935	25 545	40 484	3 225	36.9	58.5	4.7	63.1	8.0	71.1	12.6
1940	26 369	43 252	3 454	36.1	59.2	4.7	61.0	8.0	69.0	13.1
1945	26 477	41 821	3 700	36.8	58.1	5.1	63.3	8.8	72.2	14.0
1950	29 428	49 658	4 109	35.4	59.7	4.9	59.3	8.3	67.5	14.0
1955	29 798	54 729	4 747	33.4	61.3	5.3	54.4	8.7	63.1	15.9
1960	28 067	60 002	5 350	30.0	64.2	5.7	46.8	8.9	55.7	19.1
1965	25 166	66 928	6 181	25.6	68.1	6.3	37.6	9.2	46.8	24.6
1970	24 823	71 566	7 331	23.9	69.0	7.1	34.7	10.2	44.9	29.5
1975	27 221	75 807	8 865	24.3	67.7	7.9	35.9	11.7	47.6	32.6
1980	27 507	78 835	10 647	23.5	67.4	9.1	34.9	13.5	48.4	38.7
1981	27 603	79 272	11 009	23.4	67.2	9.3	34.8	13.9	48.7	39.9
1982	27 254	80 089	11 350	23.0	67.5	9.6	34.0	14.2	48.2	41.6
1983	26 907	80 904	11 672	22.5	67.7	9.8	33.3	14.4	47.7	43.4
1984	26 504	81 776	11 956	22.0	68.0	9.9	32.4	14.6	47.0	45.1
1985	26 033	82 506	12 468	21.5	68.2	10.3	31.6	15.1	46.7	47.9
1986	25 434	83 368	12 870	20.9	68.5	10.6	30.5	15.4	45.9	50.6
1987	24 753	84 189	13 322	20.2	68.9	10.9	29.4	15.8	45.2	53.8

Source: SBMCA, 1982-88

Table A10.1 Industry of Employed Old People Aged 65 and over

Industry	%
1.Agriculture,forestry,fishery,graziery and hunting	40.45
2.Mining and quarrying	-
3.Manufacturing	14.61
4.Water, electricity and gas	-
5.Construction	2.24
6.Commerce	26.97
7.Transportation, storage and communication	1.12
8.Finance,insurance,real estate,industry and commerce services	2.24
9.Government,community and individual services	14.61
Total	89 000

Source: DGBAS, 1985b

Table A10.2 Occupation of Employed Old People Aged 65 and over

Occupation	%
1.Professional,technical and related workers	5.62
2.Administrative,executive and managerial workers	1.12
3.Superintendents and clerical workers	6.74
4.Sales workers	16.85
5.Services workers	15.73
6.Farmers, loggers, graziers, fishermen, hunters and related workers	40.45
7.Producers, transportation operators and coolies	13.48
Total	89 000

Source: DGBAS, 1985b

## Notes for Table 6.16

A=Malignant Neoplasms

B=Cerebrovascular Disease

C=Accident

D=Heart Disease

E=Hypertensive Disease

F=Chronic Liver Disease and Cirrhosis

G=Diabetes Mellitus

H=Bronchitis, Emphysema and Asthma

I=Nephritis, Nephrotic Syndrome and Nephrosis

J=Tuberculosis

K=Pneumonia

L=Other Protein-Calorie Malnutrition

M=Ulcer of Stomach and Duodenum

N=Suicide

O=Septicaemia

Table All.1 The Ten Leading Causes of Deaths by Age Groups  
Both Sexes 1984

Order	65-69	70-74	75-79	80-84	85-89	90-94	95-99	100+
1	B 22.43	B 24.03	B 22.86	B 20.45	B 16.01	D 14.31	D 14.58	D 13.33
2	A 21.90	A 16.24	D 13.83	D 14.45	D 15.51	B 11.86	K 6.10	B 6.67
3	D 11.30	D 12.00	A 12.49	A 8.20	E 6.26	K 5.05	B 5.76	C 5.00
4	C 5.19	E 5.36	E 5.86	E 5.75	A 5.83	E 4.59	H 4.07	A 5.00
5	E 4.89	G 4.61	H 4.45	H 5.25	H 5.58	A 4.06	A 4.07	L 3.34
6	G 4.75	H 4.21	G 3.86	K 3.37	K 3.42	H 3.98	E 3.73	F 3.33
7	F 3.49	C 3.62	C 2.74	G 2.53	I 2.38	I 2.14	I 2.71	E 3.33
8	H 3.35	J 3.59	I 2.64	C 2.50	G 2.22	C 1.68	C 2.03	K 3.33
9	J 3.10	F 2.70	J 2.49	I 2.12	C 2.11	M 1.15	M 1.35	H 1.67
10	I 2.47	I 2.63	K 2.46	J 2.09	M 1.64	G 0.99	F 1.02	N 1.67
Subtotal	82.87	78.99	73.68	66.71	60.96	49.81	45.42	46.67
Others	17.13	21.01	26.32	33.29	39.04	50.19	54.58	53.33
*1	10 092	11 725	10 150	6 881	3 655	1 662		
Total								
*2	10 068	11 778	10 240	6 966	3 684	1 329	421	

Sources: 1) DOH, 1985:88-89

2) MOI, 1985a

Table All.2 The Ten Leading Causes of Deaths by Age Groups

Order	65-69	70-74	75-79	80-84	85-89	90-94	95-99	100+
Male								
1	A	B	B	B	D	D	D	F
	23.55	22.25	20.86	18.68	14.78	16.20	17.71	15.39
2	B	A	A	D	B	B	A	C
	20.66	17.59	14.25	13.88	13.72	11.81	8.33	15.39
3	D	D	D	A	A	K	B	H
	10.94	11.20	12.90	9.72	7.43	6.25	6.25	7.69
4	C	E	E	H	H	E	H	D
	5.81	5.27	5.11	6.00	6.93	5.33	5.21	7.69
5	E	H	H	E	E	A	K	A
	4.63	4.79	5.09	5.49	6.08	5.32	4.17	7.69
6	F	J	J	K	K	H	F	-
	4.01	4.60	3.77	3.72	3.82	5.09	3.13	-
7	J	C	C	C	C	I	C	-
	3.96	4.28	3.19	3.22	2.97	3.24	3.13	-
8	H	F	K	J	I	C	I	-
	3.72	3.27	2.76	3.00	2.83	2.31	2.08	-
9	G	G	G	I	G	M	E	-
	3.16	3.20	2.70	2.30	2.19	1.39	2.08	-
10	I	I	I	F	M	J	P	-
	1.87	2.37	2.36	1.96	2.12	1.16	2.08	-
Subtotal	82.31	78.82	72.99	67.97	62.87	58.10	54.17	53.85
Others	17.69	21.18	27.01	32.03	37.13	41.90	45.83	46.15
Female								
1	B	B	B	B	B	D	D	D
	25.52	26.73	25.07	21.95	17.45	13.37	13.07	14.89
2	A	A	D	D	D	B	K	B
	19.02	14.17	14.87	14.92	15.97	11.88	7.03	8.51
3	D	D	A	A	E	K	B	A
	11.92	13.23	10.55	6.90	6.38	4.46	5.53	4.26
4	G	G	E	E	A	E	E	K
	7.51	6.76	6.70	5.98	4.82	4.23	4.52	4.26
5	E	E	G	H	H	A	H	L
	5.36	5.49	5.14	4.61	4.73	3.43	3.52	4.25
6	C	H	H	G	K	H	I	E
	4.11	3.34	3.75	3.10	3.17	3.43	3.01	4.25
7	I	I	I	K	G	I	A	N
	3.51	3.02	2.94	3.07	2.23	1.60	2.01	2.13
8	H	C	C	I	I	C	Q	C
	2.69	2.61	2.24	1.94	2.10	1.37	1.51	2.13
9	F	J	K	C	C	M	L	-
	2.59	2.05	2.12	1.89	1.56	1.03	1.51	-
10	J	F	F	M	M	G	C	-
	1.61	1.83	1.97	1.75	1.34	1.03	1.51	-
Subtotal	83.84	79.23	75.35	66.14	59.75	45.83	43.22	44.68
Others	16.16	20.77	24.65	33.86	40.25	54.17	56.78	55.32

Source: DOH, 1985:90-93

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